



Item
Meeting 2012 August 27

COUNCIL REPORT

TO: CITY MANAGER **DATE:** 2012 August 22

FROM: DIRECTOR FINANCE

SUBJECT: CORRESPONDENCE FROM THE CANADIAN FEDERATION OF INDEPENDENT BUSINESS (CFIB)

PURPOSE: To provide information to Council regarding the recommendation contained in the correspondence from the CFIB.

RECOMMENDATION:

1. **THAT** this report be received for the information of Council and,
2. **THAT** that a copy be forwarded to Shachi Kurl, Director Provincial Affairs, BC & Yukon, Canadian Federation of Independent Business.

REPORT

Background:

This report is written in response to correspondence dated July 9, 2012 from Shachi Kurl, Director of Provincial Affairs, BC & Yukon, Canadian Federation of Independent Business (CFIB). According to Ms. Kurl's communiqué the CFIB is a "non-profit, non-partisan Canadian business association that seeks to give independent business a greater voice in determining the laws that govern business and the country". The correspondence provides information regarding the results of their 2012 property tax report which focuses on Class 6 Business Property.

The CFIB states that they have been tracking information regarding business property tax since 2003 by measuring and comparing one factor used in calculating property taxes – the tax rate (or mill rate). The CFIB has been reaching out to business members under a slogan "Cap the Gap" to encourage businesses to support a campaign to have Class 6 property tax rates set at a maximum 2:1 ratio to residential property tax rates.

This report provides information about tax rates and services in Burnaby and responds to the CFIB request that the City consider the following four recommendations:

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1. Cap the Gap - Municipal governments should cap the property tax gap between businesses and residents at a maximum ratio of 2:1.
2. Municipal governments should provide earlier property tax notices for commercial taxpayers.
3. Municipal governments should allow commercial taxpayers to remit taxes in monthly or quarterly installments.
4. Municipal governments should extend the homeowners' grant to business owners occupying zoned work/lived premises.

Discussion:

CFIB Recommendation 1 – Cap the Gap

Ideal Ratio

In BC responsibility for setting property taxes is shared by cities, the province and regional authorities. The City of Burnaby is one of six taxing authorities that calculate taxes owing based on individual assessed property values by class. The ratios discussed in the CFIB correspondence focus on municipal property taxes by class. The discussion assumes that it is appropriate for all cities in Canada to have the same ratio of Business Class property taxes to that of Residential Class property taxes and that this ratio should be 2:1; a higher ratio is bad and a lower ratio is good. In addition this ratio should stay constant year over year. If this ratio of 2:1 is not to be attained voluntarily by the adoption of council policy at the city level, then provincial rate setting legislation should be used to attain this ideal ratio.

Definitive supporting documentation in support of a 2:1 relationship as the “ideal ratio” is not provided. The Union of BC Municipalities report titled: The Comment on Fiscal Management in BC Municipalities, produced in May 2011, found against the opinion held by the CFIB, that Municipalities were unfairly taxing local businesses. "Tax revenue data from the past 20 years in BC show that the property taxes received from business (Class 6) properties have remained constant as a percentage of overall tax revenue. The proportion of revenue from residential (Class 1) properties has increased".

The Comment on Fiscal Management further notes the two key guiding principles used by Municipalities in setting tax rates:

- *"Fairness, as determined by the benefit each type of property receives from Municipal services, and*
- *Fairness, based on the (perceived) ability of each tax class to pay".*

Business property owners in general have a higher ability to pay property taxes since they use the property to generate income, from which they can deduct the expense of property taxes. In many

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cases businesses may also pass on such costs to customers. As such they do not incur the same barrier to offset property taxes as residential taxpayers, for whom, (especially for those living in Greater Vancouver); the bulk of their wealth resides in the value of their property. Therefore it is reasonable and fair to levy a higher tax ratio upon Class 6 properties, given their ability to offset taxes as business expenses and their ability to take measures that reduce the impact of taxation on their personal wealth.

Participation of the Business Community in Local Government

The CFIB notes that “Small business owners are central to our economy, and deserve to be treated fairly”.

The City of Burnaby actively participates and supports business development and greatly values business as an important community partner. Burnaby Council is committed to economic, social and environmental sustainability. The City’s Economic Development Strategy 2020 focuses on making Burnaby the preferred location for a broad range of business investment. The current redevelopment of the Edmonds area into a Town Centre and the redevelopment of the Brentwood Mall site will strengthen these two business areas in the immediate future to provide more opportunity for continued business growth.

The UBCM¹ noted in its May 2011 report on fiscal management in BC that although businesses cannot vote in local elections, business leaders and business owners can and do stand for election to local office to act for and to help ensure that the needs of the business community are represented at the local government level. The UBCM’s survey results showed that a full 72% of mayors own or work for private businesses; the percentage for councilors was 59%. The report also states that “in reality A vast majority of elected officials... understand the importance of local businesses to their communities, and understand the need to ensure that local decisions promote rather than hinder business growth and prosperity”. Burnaby is an outstanding example of a community that is inclusive of business and values business as important members of our community. As an active participant and supporter of the Burnaby Board of Trade and Tourism Burnaby, Council is closely connected to the business community and provides opportunities for business to speak about their priorities and concerns. The City reached out to all members of the community to participate in the development of the Burnaby Economic Development Strategy in 2007.

Receipt of Services

The assertion by CIFB that business in BC pay more than its “fair share” of municipal taxes, while consuming fewer services than residential property owners ignores the basic premise that: property taxes are not directly related to benefits received; they are an important mechanism, set by Provincial legislation and through policy at both the provincial and local levels, to provide essential and sustainable funding for local governments. They are also an important tool that helps to support local government autonomy.

1 UBCM Comment on Fiscal Management in British Columbia's Municipalities and News Release - 2011 May 16.

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If municipalities were to try and set rates based on consumption of services this would entail a very complex system of identification of service consumption and redistribution of the tax burden between different classes, and for that matter (if permitted under the Community Charter) between taxpayers within the same class. It is not possible to state that two households on the same street use the same municipal services.

It is also important to note that a number of services provided by municipalities are mandated by provincial authorities; these services may or may not provide equal benefits to all taxpayers across the municipality. In addition taxes collected for other agencies, such as Provincial school taxes, are also levied across classes with no identification of which taxpayers are in receipt of services provided by the school board. Clearly property taxes are a funding tool that is not directly related to the benefits received.

Annual Property Taxes in Burnaby

Burnaby is fiscally responsible and strives to provide outstanding service to our citizens and community with limited monetary resources. There is a delicate balance between keeping property tax increases to a minimum and continuing to provide sustainable levels of services that support the whole community. City property tax changes result from a need to provide revenues to fund the City services for a fiscal year. New growth increases the base for property taxation and this is taken into account when calculating the need for a tax increase over the prior year. New construction brings in new taxes but it also requires new infrastructure and facilities to service new business and residences in the community. Burnaby's continued investment in public infrastructure such as roads, sewers, and water treatment has facilitated urban expansion which in turn builds the opportunity for business development.

Legislated through the Provincial Government, BC Assessment is responsible for determining property assessment values in British Columbia based on market comparisons. In BC, Provincial legislation also establishes the rules for taxation. There are two key factors that determine the amount of tax to be paid: the assessed value of the property and the amount of money needed to fund City services. Council approves changes to property taxes each year to provide needed funding.

The tax rate is applied to the assessed value of an individual property to determine the amount of taxes owing for each property. The first step in determining the tax rate for a year is to bring the tax base level, with the prior year, by removing the impact of new growth and adjusting the tax rate to account for the change in market valuation. Once this rate has been adjusted, it will provide exactly the same amount of taxes as in the prior year if applied to the current year's assessed values. As the market (assessment) value increases the tax rate is decreased to ensure taxpayers are not taxed on their increasing market value. Once this step is completed, the amount of new funding required to provide for cost increases and new services is determined as the current year's percentage increase in the municipal tax rate.

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Assessments, Tax Rates and General Taxes – 2002 Versus 2012

Over the ten year period of the CFIB’s studies both Business and Residential Property classes in Burnaby have been treated exactly the same. Both classes have received the same percentage increase in general municipal taxes each year – the general municipal tax ratio was 3.34:1 in 2002 and is 3.34:1 in 2012.

Yet the change in the tax rate ratio or the “Gap” that is quoted by the CFIB has gone up. This is the result of the difference in the percentage change in market values between residential and business properties. The CFIB’s analysis ignores the impact of property value changes, however when the impact of property value changes are considered in the analysis it is evident that the business to residential tax ratio for general municipal taxes has remained constant between the two property classes, and has not increased during this period of time.

Factoring out the impact of new growth (or non-market change), the ratio of average business tax to average residential tax remained constant at a ratio of 3.34:1 over the ten year period 2002 to 2012.

The change in assessment values over this same ten year period of time was very significant. The cumulative average residential property assessment value increased by 152% as compared to 86% for business properties; therefore, the tax rates for both Residential and Business Classes declined. To put this into dollar terms, a business and residential property, both worth the same amount of \$500,000 in 2002 would have increased to \$930,050 and \$1,260,385 respectively in 2012. The substantial difference in the amount of assessment increase – 152% compared to 86% caused the shift in tax rate ratios. Because the assessment increase was higher for residential properties the tax rates decreased more for residential properties than for business properties resulting in a tax rate ratio increase from 3.3:1 to 4.5:1 as shown in the following chart.

	2002			2012		
	Residential	Business	Ratio	Residential	Business	Ratio
Average Cumulative Assessment Increase since 2002				152%	86%	
Tax Rate (\$ of Tax Per \$1000 of Assessed Value)	3.9894	13.3166	3.33	2.2326	10.1000	4.52
General Municipal Tax	1,995	6,658	3.34	2,814	9,394	3.34

Setting and maintaining a CAP for a 2:1 ratio between Business and Residential Classes as proposed by the CFIB would mean a significant increase in the residential homeowner taxes and

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perhaps other property classes to compensate for the tax loss from the Business Class. As a result, the tax burden (in terms of total \$) would shift dramatically.

In 2012 residential property taxes represent 48.01% of taxes paid and business property taxes represent 40.39%; all others 11.6%.

Burnaby is similar to other areas of the Province. An increase in the burden of residential taxation would most likely impact those on fixed income the most. Research by the Federation of Canadian Municipalities² revealed that low income residents already pay a disproportionately large percentage of their pre-tax income on property taxes relative to high income residents. Such low income households may also be at greater risk of financial hardship than many businesses, as they may not have a means of offsetting any increase in property taxes. The redistribution of the property tax burden to provide a 2:1 business/residential tax rate ratio would have increased the average residential property taxes in Burnaby by 34.8% in 2012, assuming that the total tax for all other classes remain unchanged. This is simply not acceptable, nor equitable.

CFIB Recommendation – 2

CFIB request that municipal governments provide earlier property tax notices for commercial taxpayers to enable costs to be staggered throughout the year as property taxes for some represent a substantial onetime payment.

Provincial Legislation dictates when taxing authorities and local governments must submit annual budgets and tax requisitions and when tax due date is. Cities must wait for other taxing authorities to prepare their bylaws and advise Burnaby of the taxes to be collected on their behalf. This information is generally received by Burnaby in mid April for Municipal Finance Authority, BC Assessment, GVRD and Translink. Provincial School Tax information is usually received in late April to early May. The City mails bills about two weeks after receipt of the all information. However as noted in recommendation three, the City does estimate property taxes for businesses each year based on the prior year and accepts payments on account throughout the year enabling payments to be staggered throughout the year.

CFIB Recommendation – 3

CFIB suggested that commercial taxpayers be allowed to remit taxes in monthly or quarterly installments providing greater flexibility.

The City of Burnaby already provides preauthorized payment options to all property owners including businesses, from August through to May of the new tax year. Payments on account are permitted at any point throughout the year. Such funds are held in an interest bearing account and used to offset Utility and Tax bills as well as property tax payments.

² UBCM Comment on Fiscal Management in British Columbia's Municipalities and News Release - 2011 May 16.

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CFIB Recommendation – 4

Municipal governments should extend the homeowners’ grant to business owners occupying zoned live/work spaces.

The Home Owner Grant program is a Provincial program administered by local governments on behalf of the Province of BC. Home Owner Grants are eligible for property owners who own live/work units. The stipulation is that the property must be registered in the owner’s name, not in a business name.

Conclusion

The City of Burnaby is fiscally responsible and strives to provide outstanding service to our citizens and community with limited monetary resources. In Burnaby the business community is a very important and active contributor to the success of the City, and a valued member of our community. In fact, three of the four recommendations of the CFIB are already in place in Burnaby to better serve business owners.

The City has fostered relationships with citizens, business and volunteers to build a community that reflects their needs based on the principles of economic, social and environmental sustainability. There is a delicate balance between keeping property tax increases to a minimum and continuing to provide sustainable levels of services that support the whole community and provide for the future of our City. Council works to hard attain these objectives.

The four recommendations of the CFIB have been reviewed and considered. Three of the four recommendations are already implemented in Burnaby. The recommendation to Cap the business to residential tax rate at a ratio of 2:1 would increase the burden on the average Burnaby residential property owner by over 34%. It is neither feasible nor advisable for the City to implement this recommendation.

Recommendation

That Council receive this report for information and that a copy of the report is forwarded to Shachi Kurl, Director Provincial Affairs, BC & Yukon, CFIB.



Denise Jorgenson,
Director Finance

Attachment: CFIB Correspondence

CLERK'S FILE: 07810-01

July 9, 2012

Mayor Derek Corrigan
4949 Canada Way
Burnaby, British Columbia
V5G 1M2

Dear Mayor and Council:

As you may know, the Canadian Federation of Independent Business (CFIB) is a non-profit, non-partisan business association that seeks to give independent business a greater voice in determining the laws that govern business and the country. With 109,000 members across Canada, 10,000 of which are located in BC, and 289 in your community, we are the largest organization exclusively representing the interests of small- and medium-sized businesses (SMEs) to all levels of government.

I would like to take this opportunity to share with you the results of our annual 2012 property tax report: "*Stalled Progress for Small Business in BC*," which compares the municipal property tax rates applied to business and residential class properties—the "tax gap." Additionally, we are inviting your office to issue an official response to our findings.

Small business owners are central to our economy, and deserve to be treated fairly. Small businesses pay tax at far higher rates than residential owners, but they do not consume municipal services at the same rate. This can create a political temptation to increase service and spending levels funded by increasing property taxes, which creates a disproportionate burden on small business taxpayers to the short-term apparent benefit of residents. Since releasing our first property tax report in 2003, CFIB has seen little progress across the province in narrowing the gap.

Our 2003 report showed that businesses in Burnaby paid 3.62 times the municipal property taxes that a homeowner paid on the same value property. In 2011, the municipal gap increased and businesses in Burnaby paid 4.22 times the property taxes that a resident paid. Based on this gap, on a \$798,114 property (the average residential property value in Burnaby), a resident would pay \$1,897, while a business would pay \$8,006 in municipal taxes alone. Our 2011 report showed that your municipality was ranked number 6 in the province based on the municipal portion of tax gap (1 being worst and 161 being best).

In our report, you will find a comprehensive study of property taxes and their negative effects on small businesses. The following recommendations, which can be found in our report, should be taken into consideration:

- 1) Municipal governments should cap the property tax gap between businesses and residents at a maximum of 2 to 1. As long as municipalities continue to move in the right direction, CFIB proposes this be a voluntary commitment, rather than having the provincial government legislate a cap, and proposes local governments set a timeline of a decade to achieve a gap of 2 to 1. In recognizing the importance of small business, similar commitments have been made by Saskatoon and Toronto, which have achieved fairer property tax gaps.

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- 2) Municipal governments should provide earlier property tax notices for commercial taxpayers. Unlike other major business costs staggered throughout the year, property taxes represent a major one-time payment that for some small business owners may be in the tens of thousands of dollars. Earlier notice for these taxpayers allows more time to make financial arrangements.
- 3) Municipal governments should allow commercial taxpayers to remit taxes in monthly or quarterly installments. Greater payment flexibility eases the financial burden on small business owners facing large tax bills.
- 4) Municipal governments should extend the homeowners' grant to business owners occupying zoned live/work spaces. At present, there appears to be no consistent policy across communities for small business owners who live and work out of the same building. While municipalities allow for the zoning of these spaces, CFIB members report a patchwork of approaches when it comes to their ability to claim the grant. For the sake of certainty, small business owners in zoned work/live premises should be allowed to claim the homeowners grant.

Since first reporting on this issue in 2003, we have received feedback from business owners who would like to know why the gap between business and residential properties is so high. At CFIB, we recommend a tax gap cap of 2 to 1, but the provincial average is 2.78.

As your municipality has a gap well over both our recommended ratio and the provincial average, CFIB asks that you review the Property Tax Report and respond to this letter within 30 calendar days. As this is the amount of time municipalities often allot for businesses to remit their yearly property tax, we believe that this should be a sufficient time frame for your response. CFIB will endeavour to make public the responses from municipalities. We would be pleased to further discuss how to make your municipal property tax policies more business-friendly.

I look forward to receiving a written response from you regarding the inequities in the property tax system in your municipality. Please do not hesitate to call if you have any questions.

Sincerely,



Shachi Kurl
CFIB Director of Provincial Affairs, BC & Yukon