

Some Thoughts on Industrial Property Taxation in British Columbia

presented to:
 Union of BC Municipalities
 2009 Convention

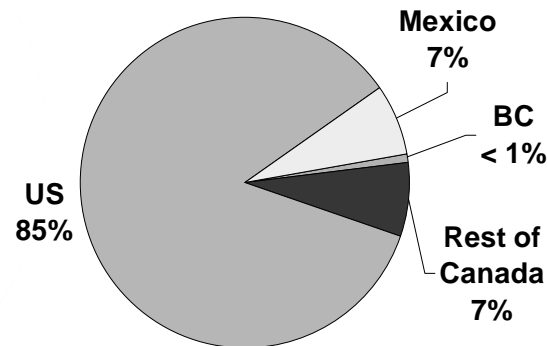
September 29, 2009
 Vancouver, BC



Business Council of
 British Columbia

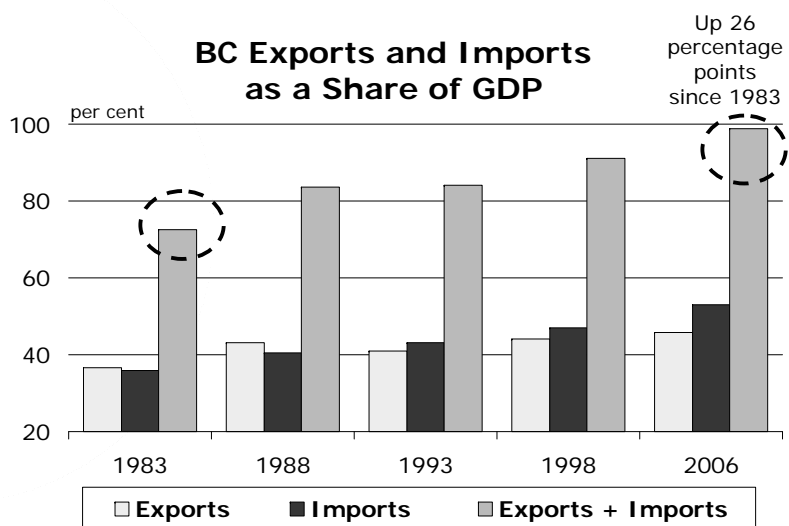
Jock Finlayson
 EXECUTIVE VICE PRESIDENT - POLICY

BC – A Small Open Economy (% of Combined N. American GDP, 2006)



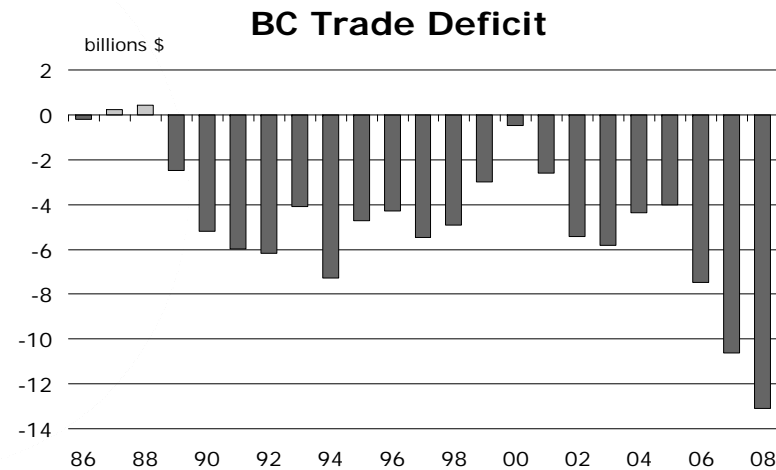
Source: IMF World Economic Outlook, BEA and Statistics Canada

Trade More Important to BC's Economy



Source: Statistics Canada. Includes goods and services.

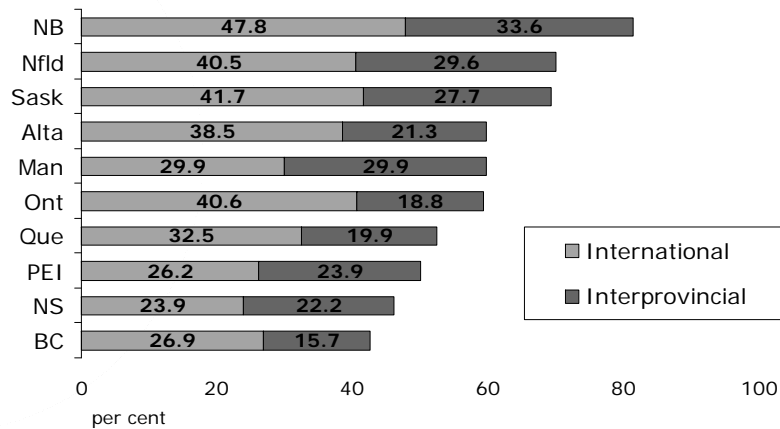
A Widening Trade Deficit



Source: Statistics Canada, Provincial Economic Accounts.

BC Has A Weak Export Base

Exports as a share of GDP, Average 2004-08



Sources: Statistics Canada, Provincial Economic Accounts.

measured in current dollars

Resource-Based Industries Remain Vital to Our Economic Prosperity

Range of Contributions to the BC Economy (GDP)

Sector	2006 Direct share*	Share after all other impacts
Logging, Wood Products and Pulp & Paper Manufacturing	6.6%	24.8%
Mining, Mineral processing, Oil and Gas	3.4%	8.4%
Agriculture, Fishing, Food and Beverage Manufacturing	2.1%	4.2%
Total Resource Sector (primary and processed)	12.1%	37.4%

Source: Gary Horne, "Sectoral Review of the British Columbia Economy: An Input-Output Approach, BC Stats (October 2001) *updated by Business Council.

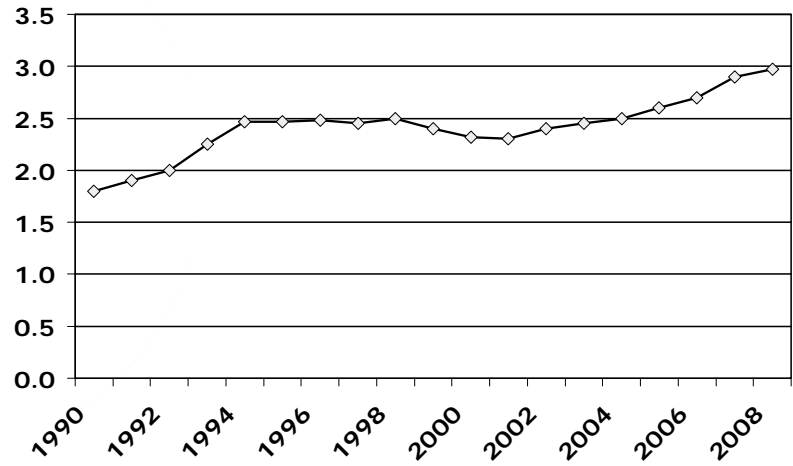
Background

- Local governments provide important services and maintain infrastructure
- Property tax is their biggest source of revenue
- BC's property tax system has several notable features:
 - » numerous classes (residential, utilities, 3 other business classes, managed forest land, recreation, and farm)
 - » municipalities exercise more discretion over property taxation than in other provinces
 - » size of residential/business tax "gaps" varies across communities and across different classes of property (major industry, light industry, general business)
- Local officials have scope to shift property tax burdens across classes and to subsidize residents (voters) vs the major and light industry classes

Background

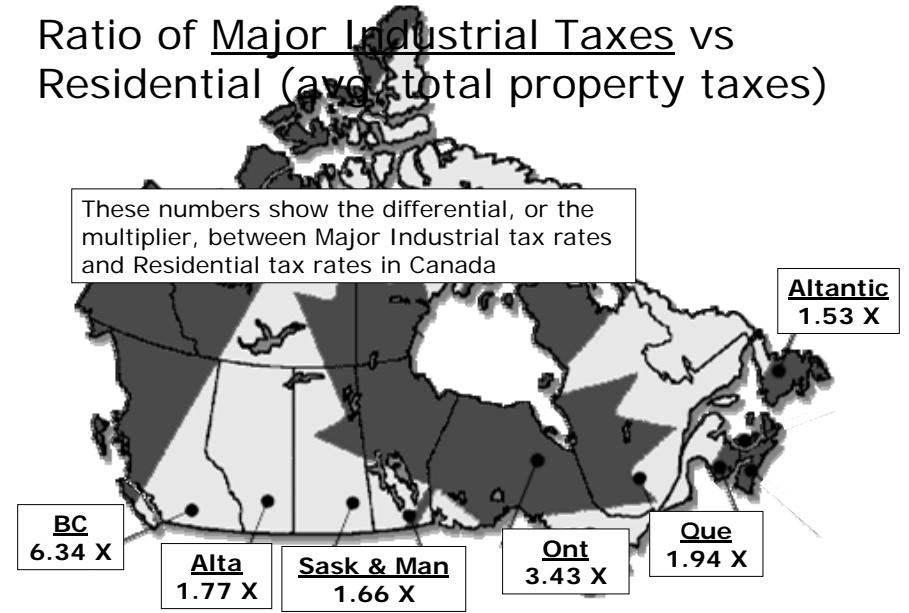
- Business property tax policy, especially the taxation of "major industry," has recently garnered more attention:
 - » increasing global competition facing major BC industries (forestry, mining, energy, transportation/gateway, all parts of manufacturing)
 - » BC Competition Council report recommendations
 - » Provincial port tax cap
 - » Premier's Task Force on Community Opportunities
 - » Research reports (Canada West Foundation, C.D. Howe Institute)
 - » Vancouver "Fair Tax Coalition"

Ratio of General Business to Residential Property Tax Rates in BC



Source: CFIB.

Ratio of Major Industrial Taxes vs Residential (avg total property taxes)



Source: BC Pulp & Paper Task Force.

Measuring the Distribution of the Property Tax Burden

- By the tax rate for each property class
- By the rate ratio between different classes
- By the share of total property tax contributed by various classes
- By the consumption payment ratio (tax share of a class vs its estimated usage of local services)
 - » this measure tries to gauge the extent to which different classes of property are net contributors or beneficiaries of local services on an after-tax basis

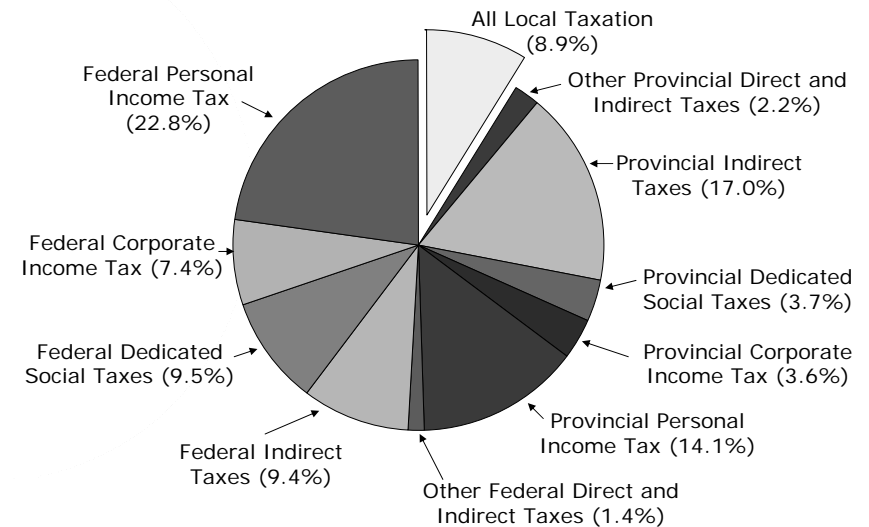
Industrial Property Taxes: Issues for BC Business

- BC is not competitive in this sphere of business taxation compared to other jurisdictions, according to research done by academics, think tanks and government advisory bodies
- Significant variations across municipalities which host major industry (700+ class 4 properties), due to differences in industrial structure; in ratios between classes; in trends in property values; and in community size
- Professor Robert Bish: Some 35 BC municipalities have "the highest industrial tax rates in North America"
- Problem in BC arguably stems from the interaction of 1) multiple distinct business property classes, 2) lack of provincial limits on rates/ratios set by municipalities, 3) the risk that higher rates will be levied after an industrial investment is made

Issues for BC Business (cont'd)

- Relative to the quantum of local services consumed, major industrial facilities typically pay (much) larger shares of local property tax than residents or general business
- Enterprises in class 4 generally sell in international markets and have little room to pass on higher government-imposed costs to their customers
- In some cases, industry asset values have declined due to lack of new investment and broader competitive factors, while residential property values have risen. Yet contributions to property tax revenues do not reflect this
- Pulp and paper industry reports that taxes per tonne of production in BC are among the highest in North America (Ontario on average is even higher)

Federal, Provincial, and Local Taxes in Canada (2007 in Nominal \$ Billions)



Source: Canada West Foundation.

Diversifying Municipal Revenue Sources?

- Key recommendation of Canada West Foundation, Conference Board of Canada, also supported by TD Bank Economics Department and many academics
- "It is not only impractical and unreasonable to expect cities to fund their increased spending responsibilities and requirements from a single tax, it is almost certain to be economically inefficient and unfair. The time has come for provincial governments to give cities access to additional tax sources." *Professor Harry Kitchen, 2004*
- The business community in BC (and Canada) has not yet come to grips with the implications of "revenue diversification" in the local government context

Desired Attributes of Property Tax System

- Raise revenue for communities in an efficient and sustainable manner
- Provide equity for all parties
- Transparent and understandable
- Predictable and non-arbitrary
- Flexibility to adjust as economic circumstances change
- Attractive environment for investment and asset upgrading

Final Thoughts

- Business Council believes there is a “provincial interest” in maintaining a diversified economy and in supporting the continued viability of key export and wealth-creating industries
- Property tax burdens on major industrial facilities in some (not all) BC communities are clearly excessive and act to discourage re-investment. This hurts BC’s overall reputation as a place to invest
- The province should assert greater control over this field of tax policy. Possible policy changes – legislating a single tax rate to apply to “major industry,” prescribing “ranges of fairness” for ratios between classes (Ontario), reducing the number of classes, etc.
- Smaller communities dependent on major industry may need provincial assistance in the transition to a more equitable system