

# FAQ: Split Classification for Unused Airspace

## What is the problem facing local businesses?

Property taxes are increasing for local businesses, most noticeably in the Lower Mainland. Family-owned stores, arts and culture groups, charities, and other small-scale service providers are being forced to pay massive tax bills on the undeveloped space above their buildings – essentially a tax on air.

Although these are small businesses, they are assessed and taxed as though they are massive high-rise condominiums. As businesses shut down or are forced to move due to the excessive tax burden, the province sits idle and continues to allow the hollowing-out of communities through heavy-handed taxes.

The COVID-19 pandemic has severely challenged small businesses. The BC Business Council estimates that up to 15% of businesses with employees may not survive the pandemic downturn. To provide a lasting and sustainable recovery for small businesses, it is critical to deliver on split assessment and relieve cost pressures caused by sky-high property tax assessments in the Lower Mainland.

## How does the BC Liberal's proposed legislation fix the problem?

The legislation introduced today would implement the resolution recently endorsed at the *Union of BC Municipalities 2019* convention, which was amended to call for “implementation of the “Split Assessment through a New Commercial Sub-Class” approach in time for 2020 to enable municipalities to lower commercial property tax rate on properties where development potential has made it difficult to operate and provide the much needed relief for smaller businesses and the arts, culture and non-profit sectors.”

By creating a new classification for the empty space above local businesses, local governments would be empowered to tax this unused airspace at a zero or near-zero rate. Businesses would pay taxes on the property they actually use and BC's property assessment system would continue to function as it does currently.

## What about Government's legislation from early 2020?

Legislation introduced by government early this year claimed to provide property tax relief to businesses. However, the proposed solution was not what small businesses, local governments and many other stakeholders were asking for, which was ending the tax on unused airspace.

Legislation introduced by government was widely criticized by BC municipalities and business organizations:

- “We have some small businesses that are really hurting, and I would do anything to help them, but this is really, really unworkable.” – Richard Stewart, Mayor of Coquitlam, *The Globe and Mail*, March 2, 2020
- “We're not happy at all... We straightforwardly asked for something [more workable] with ample time to get it passed and they didn't do it.” – Kennedy Stewart, Mayor of Vancouver, *The Globe and Mail*, February 24, 2020

- “You just can’t do it.” – Muriel Protzer, CFIB, *The Globe and Mail*, February 24, 2020

The BC Liberal legislation introduced today would provide municipalities and businesses with the solution they have requested.

### **Beyond communities, who else has advocated for this solution?**

Multiple communities and business organizations have called for changes to be made to the property tax system to enable tax relief for local businesses. Some of these stakeholders and proposals include:

- **Small Business Task Force;** “*Small Business Task Force Final Report*,” recommendation 1.4.3, October 2018.
- **Union of BC Municipalities;** “*Support for Small Business and Creation of Non-Residential Sub Classes in Property Tax Assessment*,” City of Port Moody resolution B78 (as amended), UBCM 2019 Resolutions.
- **Intergovernmental Working Group;** “*Split Assessment Through New Commercial Sub-class*,” presented by Intergovernmental Working Group (senior staff from Ministry of Municipal Affairs & Housing; senior staff from Ministry of Finance; senior staff from BC Assessment; CFO’s representing Metro Vancouver: Vancouver, Burnaby, Coquitlam, North Vancouver, Richmond, Surrey and West Vancouver) to the Standing Committee on Policy & Strategic Priorities, July 10, 2019.
- **Geoff Meggs, former City of Vancouver Councillor;** “*Motion to challenge Assessment Authority on sky-high assessments in Vancouver*,” geoffmeggs.ca, February 1, 2016.
- **BC Chamber of Commerce;** “*Split Property Assessment resolution*,” 2019/2020 Policy and Positions Manual.
- **Lower Mainland Chambers of Commerce & Boards of Trade;** “*Business Community Support for Split Assessment and Property Tax Relief Through a New Commercial Property Sub-Class*,” joint letter to Minister of Municipal Affairs and Housing co-signed by Burnaby Board of Trade; Greater Vancouver Board of Trade; Greater Langley Chamber of Commerce; BC Chamber of Commerce; Mission Regional Chamber of Commerce; New Westminster Chamber of Commerce; Tri-Cities Chamber of Commerce; Surrey Board of Trade; Richmond Chamber of Commerce; North Vancouver Chamber of Commerce; Chamber of Commerce serving Pitt Meadows-Maple Ridge; Abbotsford Chamber of Commerce, July 22, 2019.

### **How do property assessments impact local businesses?**

BC Assessment assesses property taxes based on a property’s “highest and best use.” This means that as neighbourhoods develop, property values can be impacted based on nearby sales. For example, if a condominium tower goes up near a small business or a community plan is changed to enable future development, the business may then be assessed on its potential to become a similar condominium development. Because this is now deemed the property’s most valuable use, it is assessed—and subsequently taxed—on this basis.

**Why do property taxes play a role?**

Assessment spikes are compounded by the fact that business and industrial properties are frequently taxed at a higher rate than residential land. These taxes are applied for every \$1,000 of a property's taxable value. In the City of Vancouver, the tax rate for residential property is just under \$1.34 per \$1,000. The rate for businesses is approximately \$4.27 per \$1,000. As a result, a spike in assessed value doesn't just mean that the business is taxed on its value as a condominium tower, it is also paying more than three times the tax an actual tower would otherwise pay. This is because the developed tower gets the residential rate, while the undeveloped business pays a higher business rate.

**Who is affected?**

Any business in a rapidly-growing neighbourhood can be affected. Local stores, art studios and charities have all faced the risk of closure due to soaring property tax bills. For example, a reclassification allowing residential development near the Lougheed Highway and Skytrain line caused a 250% spike in taxes for Burnaby-based tile manufacturer, Interstyle Ceramic and Glass. Small businesses along Vancouver's South Granville Street corridor, like Ouisi Bistro, West Restaurant and Plum Clothing store, have all closed their doors in the last month.

**Is this issue limited to those with triple-net leases?**

No. Rising tax costs could also be passed on through higher rents, while other businesses also own the land on which they are based.