From: Johnston, Sadhu
Sent: Sunday, April 28, 2019 9:57 PM
To: Direct to Mayor and Council - DL
Cc: City Manager's Correspondence Group - DL; Cheng, Grace
Subject: FW: questions for tax shift report

Greetings Mayor and Council
Over the weekend I received the following question from a councilor:

> The 2% shift is projected to save **all** businesses on property valued at $1M, $181 /year (p2 of appendix A) . How much would a split assessment method save an average **small business tenant**? How much would the 2% shift save a business on property valued at $10M? What would be the impact of split assessment on a business on property valued at $10M be?

Here's the answer from our staff:
On pg. 12 of the rpt, table 5 indicates that a hypothetical business property valued @ $1M would save ~$181 of CoV tax (excl. taxes levied by Other Taxing Authorities like School Tax, Translink, Metro Vancouver etc.). As such, a hypothetical business property valued @ $10M would save ~$1,806 of CoV tax (excl. OTAs).

	Business Property (Class 6)	
	$1M	**$10M**
General Purpose Tax Levy		
Before 2% Tax Shift	**$4,076**	**$40,758**
2% Tax Shift Savings	($181)	($1,806)
Total	**$3,895**	**$38,952**

"Split assessment" is designed to provide targeted and time-limited tax relief to under-developed properties where tax is applicable to both "existing use" and "development potential". Through creating a commercial sub-class to hold the "development potential" value, Council could set a lower tax rate (compared to the current business tax rate) for the "development potential" value for a period of time as determined by Council.

As such, if the above hypothetical business properties are fully developed at their "highest & best use", "split assessment" will not be applicable as there is no associated development potential. (As noted in the report, most fully developed properties - e.g. AAA office buildings in downtown - have been experiencing flat or even lower taxes over the past couple of years as their tax burden has been gradually shifted to under-developed properties.)

However, if the same properties are under-developed, and assuming i) 50% of their assessed value is attributable to "development potential" and ii) the tax rate for the "development potential" sub-class is 50% lower than the current business tax rate, "split assessment" could lower the CoV tax from $3,895 to $3,357 ($538 savings) for the $1M business property and from $38,952 to $33,575 ($5,377 savings) for the $10M business property.

	Under-developed Business Property (Class 6)	
	$1M	**$10M**
Before "Split Assessment" (see note below)	**$4,477**	**$44,766**
"Split Assessment" Savings	($1,120)	($11,191)
Total	**$3,357**	**$33,575**

(Note: Class 6 Business tax rate adjusted to incorporate 50% reduction in development potential tax rate)

As such, staff is of the view that "split assessment" is a much more targeted and effective approach to address tax impact arising from development potential – the issue that a lot of independent small businesses are facing in recent years. A broad 2% tax shift is a very blunt tool that provides tax relief to all commercial properties whether or not they need it, and yet provides very limited relief to under-developed properties which accounts for only ~21% of the business properties.

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