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To: "Direct to Mayor and Council - DL"
CC: "City Manager's Correspondence Group - DL"
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Subject: Tax shift report question and answer

Greetings Council

Staff received the following question:

Is it possible for staff to give us any sense of what percentage of business tax revenue comes from "small businesses" relative to the overall?

I hear the BIAs saying that 98% of businesses in Vancouver are small businesses, and I'd find it helpful to have a corresponding number that shows the balance of who is paying what business tax – and therefore who would be benefiting most from a possible tax shift. (Any info staff might be able to provide on business size, type, etc.)

Staff provide the following in answer to this question:

The BIAs' assertion that 98% of businesses in Vancouver are small businesses likely comes from the following link.
<https://vancouver.ca/files/cov/1-3-economic-structure-business-size-in-vancouver.pdf>

In the document, small business is defined as businesses having up to 50 employees ****by location****. In essence, TD bank (a major Canadian bank), Starbucks (a US Coffee Chain), and Pottery Barns (a US Retail Chain) could be included in the count as "small business" given that there are less than 50 employees in each ****location****.

Based on Council direction, staff has been focusing our effort on identifying targeted & time-limited tax relief policy options to support independent small business tenants, particularly retail, on high streets impacted by development potential and resulting tax increases passed on by landlords through triple net leases. This target group accounts for ~21% of commercial properties. (See pg. 3 re. breakdown by industries w/in small businesses.)

Re. question about who is paying and who is benefitting, a blanket tax shift will benefit all businesses, not just independent small businesses. The key challenge with a blanket tax shift is that it is a blunt tool that cannot effectively target independent small businesses without also offering tax relief to businesses in DT AAA offices, big box stores, luxury hotels, warehouses etc.. As included in the Council report, some commercial properties have been benefitting from tax reduction in recent years as tax burden has been gradually shifting to under-developed commercial properties. That is where the issue is and where tax relief should be targeted.

To provide a rough order of magnitude, ~42.5% of the light industrial and business properties are:

- office buildings developed at, or close to, highest & best use (e.g. DT AAA office buildings)
- warehouse & storage
- hotels
- regional malls (e.g. Pacific Centre)
- big box retail
- auto dealer shops
- banks

A blanket 2% tax shift would provide ~\$15M savings to commercial properties, of which \$6.5M would go to above categories of properties which likely don't need further tax relief at this time.

Best

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The City of Vancouver acknowledges that it is situated on the unceded traditional territories of the Musqueam, Squamish, and Tsleil-Waututh peoples.