

Approval date: April 17, 2018

Resolution No.: 159/2018

Subject: Property Taxation Distribution Policy

1.0 Goal

The goal is to establish a fair, transparent, stable and equitable distribution of property tax among all classes of taxable property.

2.0 Scope

The City collects property taxation across the nine property classes as a means to generate the majority of its revenue to fund City operations. When the property tax requirement is approved in the financial planning process, it is necessary to determine an appropriate distribution amongst all property classes.

The City intends to ensure tax ratios are within acceptable parameters in comparison to other British Columbia municipalities and will be reviewed as a basis to striking the equitable distribution of property taxation.

3.0 Background

It is important to attract and retain businesses in the City to achieve economic vitality. This is accomplished through creating a competitive business climate and maintaining competitive and stable property taxes for business. At the same time, the residential property class provides the largest proportion of taxation revenue and affordability remains a key component to encourage growth of the residential sector. Striking the appropriate distribution of property taxes across the various classes is critical to achieve a positive business climate and residential affordability.

Municipalities can use different approaches for distribution of taxes across property classes:

3.1 The **tax burden approach** is used to maintain a percentage share of property taxes collected from each of the property classes consistent from year to year. This model creates fairness in times when there is little growth or change in assessment values.

3.2 The **tax ratio approach** is used to set a ratio for each class. In times of growth and increase in assessment value to hold the ratio, rates must be adjusted for changing classes resulting in a shift in tax burden and amount of taxes paid for these classes.

3.3 **The revenue neutral approach** is used to maintain the same level of revenue in each class before considering non-market change. This approach prevents against shifts in the tax burden between classes and also ensures any tax increases will be consistent across classes.

4.0 Policy

The City of Penticton will follow the **revenue neutral approach** in property tax rate setting. This approach is most equitable and stable for all property classes, especially in times of growth and changing assessment.

This ensures each property class pays the same dollar amount in taxes as they did the previous year, prior to any Council approved tax revenue changes or changes to the physical property. This approach will ensure Council has the ability to better control the effect tax decisions have on property owners and will make it easier and more transparent to estimate what taxes will be collected on individual properties. This approach is more understandable for the public and taxpayers can more easily verify that they are being billed correctly. It is consistent to owners of all classes of property.

The following actions will be taken each year when determining the current year rates:

4.1 Tax ratios will be determined by the market forces as assessment value changes will differ between classes. The current year rates for each class will be adjusted so that the dollars for each class remain the same as the prior year not including non-market change. Non-market change is regarded as new revenue, not previously generating tax revenue.

4.2 General Municipal tax changes as determined through the City's annual operating budget process will be applied as the same percentage change to each class.

4.3 Tax ratios will be reviewed annually to ensure the City of Penticton's ratio for any class does not exceed the provincial nor regional comparator averages from the previous year for that class. In the event a ratio exceeds the provincial or regional comparator average Staff will recommend an adjustment to the ratios for the impacted taxation year reducing them to the average.

5.0 Definitions

5.1 **Assessment Value** – An assessed value is the dollar value assigned to a property to measure applicable taxes. Assessed valuation determines the value of a residence for tax purposes and takes comparable home sales and inspections into consideration.

5.2 **Non-Market Change** – Changes in property value as a result of:

- new construction authorized under local building authority permit (permitted improvements)
- new construction which occurs in an area with no local building permit authority
- property class changes
- exemption changes


- new development or "size" changes to land - including subdivisions, land assemblies and consolidations (Plans Cancellations); new/expired tenures on Crown/exempt land; and
- Zoning changes (e.g. changes that increase or decrease density, use & resulting property value).

5.2 **Property Classes** – For property taxation purposes in British Columbia, the assessor assigns one or more property class to each property according to the description of these classes in a provincial regulation. There are nine classes: residential, utilities, supportive housing, major industry, light industry, business and other, managed forest land, recreational property/non-profit organization and farm.

5.3 **Tax Rate** – The amount of tax that would be paid for each \$1,000 of assessed value. The tax rate may vary between property classes but must be the same for all properties within a class.

5.4 **Tax Ratio** – The residential tax rate divided into the property class tax rate.

Certified Correct:



Dana Schmidt
Corporate Officer