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# Taxes on Real Property

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## Introduction

The purpose of this document is to provide additional details on property tax assessment and administration, to supplement the course material presented in Chapter 3 of *Residential Property Management*. It is important for anyone involved in the ownership or management of real property to understand the property taxation system. While most people accept the need to pay their “fair share” of property tax, most owners want to be sure they are not paying any more than this – so minimization of property tax is a concern of property managers. This requires understanding the basis for assessments in that jurisdiction and the means for questioning or appealing assessments.

We will begin by presenting a short history of assessment and taxation, outlining the theory underlying property taxation in Canada and internationally. This is followed by a brief review of the role of the assessor, foundations of valuation, and the administration of the assessment system itself. We conclude with a discussion on assessment appeals.

## Background

Property assessment administration is a complex and technical field, vital to the financial health of local government. Assessors are responsible for administering the tax system, and their chief task is to identify and appraise all property in their jurisdictions. Most assessment jurisdictions in Canada use an *ad valorem* system (Latin: "by value"), based on the principle that the amount of tax paid should depend on the value of property owned. The property tax was once regarded as the fairest possible tax and was the major source of government revenue in Canada. Today, taxes on sales, goods and services, and income are more important as revenue sources. Nevertheless, the property tax remains the major source of revenue over which local governments exercise control.

Adequate local services and the health and survival of local government depend on proper assessment administration. In most communities, the property tax is the major source of revenue generated from within the community for financing local government services such as parks, fire protection, police, schools, public works, and public health. The property tax may be a revenue source for city government, county or regional government, the school district, a separate park district, a local improvement district, or other units of local government. The assessor is, therefore, a key person in the financing of local government. Appraised values used for tax purposes must be accurate so that the tax burden will be distributed fairly and property owners will have confidence in local tax administration. Without such confidence, funding of local services may shift away from the local property tax and no longer be subject to local control.

## A Brief History of the Property Tax

### The Evolution of Property Taxation

Property taxes in various forms are as old as human civilization with an unbroken recorded history of at least 5,000 years. Tax exemptions for temples and tombs were issues the Egyptians dealt with around 2400 BC. In fact, the economic resources that continued to be poured into tax-exempt temples eventually crippled the state financially, and contributed to the decline of the Egyptian kingdom. In the 4th century BC, Athens

levied taxes on land, houses, slaves, cattle, furniture, and money. The mighty Roman Empire relied heavily on land taxes and experimented with many refinements over the centuries.

The first recorded land tax in England was the Danegeld of the 10th and 11th centuries. The Danegeld, which developed into one of the king's revenues, was originally a payment made for protection from Danish and other invaders. The Danegeld was initially based on total land area, but later changed to a tax on ploughed land only.

The growth of feudalism in Europe from the 7th century onward led to widespread use of the property tax; partially because it allowed for some form of local government which complemented the feudal political system. Feudalism was introduced to England by William the Conqueror. In fact, it was under William that a complete inventory of the nation's wealth was conducted, right down to farm animals, to provide the basis for a tax on wealth – the famous Domesday Book compiled in 1086.

Barons received lands from William the Conqueror and pledged their loyalty to the king. William provided military and legal protection from other barons. In return for land and protection, the barons provided knights who were required to serve William 40 days per year. Later, barons could pay money to the king in lieu of military service (called a "scutage"). These land grants acted like an inverted tax system. The king supplied the revenue in the form of land, most of it confiscated in battles, and the citizens provided the services, or payments in lieu of services.

In the era of feudalism, the property tax was fair and efficient: land was the main form of wealth and reflected, to a large degree, a citizen's income and ability-to-pay. Secondly, the tax was easy to administer because it took place at the local level and physical property (predominantly land) is easy to find. Property subject to tax also included furniture, clothes, food, and animals.

Taxation in England in its modern form commenced with the *Poor Law Relief Act* of 1601. This Act empowered jurisdictions to raise local taxes to alleviate the plight of the poor. In the 14th and 15th centuries the common view in England was that each person should pay according to his ability or "faculty". Typically, alms for the poor were distributed after a church service. Eventually these expectations became requirements and the wealthy would find themselves answering to the Church if they did not contribute. By the 17th century, local governments had assumed responsibility for the destitute under the *Poor Law* and the burden of taxation was distributed according to one's ability to pay.

In the 16th century and onward, however, certain taxes were levied according to benefit. For example, landowners were taxed to raise money to pay rewards for catching animals that destroyed crops. Local landowners would also be taxed to pay for bridge and pier repairs with the view that improved facilities will benefit all land. Thus, the principle of taxation according to benefits received entered into local taxation.

The property tax as a major source of revenue for local government continued to be fair and efficient as long as land and real estate dominated the economy, and personal property and intangibles were unimportant. As trade increased, however, this was not the case. Once economies began to commercialize, the concept of property had to be greatly expanded; otherwise, those who owned real property would pay most of the tax while the growing merchant class would pay relatively little tax.

Once the definition of property is expanded, assessment becomes an issue. Tangible personal property (such as jewellery and clothing) is hard to locate and assess, and intangible property (such as financial assets) is even more elusive. Therefore, with the switch from an agrarian society to an industrial one, government began to rely on other forms of taxation in addition to the property tax.

In the British colonies of North America, five types of taxes were in common use:

1. Poll (capitation or head) taxes were flat rate taxes, usually levied on all adult males and sometimes on slaves of either gender.
2. Property taxes were often specific taxes, levied at fixed rates, rather than according to value, on items enumerated in the statute.
3. Faculty taxes were levied on the "faculty", or earning capacity, of persons practising certain trades or having certain skills. Unlike income taxes, faculty taxes were levied not on income actually earned, but on estimated ability to earn.
4. Imposts were levied on goods imported or exported from a colony.
5. Excises were levied on enumerated items of consumption goods, especially liquor.

The mix of taxes varied from colony to colony, depending on conditions in the colony and the power of various groups. Tax laws usually overburdened the politically weak and favoured the politically powerful, especially the landed classes. In some colonies, frequent shifts in power from one faction to another resulted in frequent changes in the tax system. In others, control by large landowners or planters minimized taxes on plantations or large wilderness tracts held for speculation. With the coming of the Revolutionary War in the United States, rapid increases in taxes to finance the war highlighted inequities and multiplied complaints. Legislators in some of the new states, uncertain of public loyalty and knowing taxes were disliked, borrowed heavily; nonetheless, taxes rose, precipitating armed resistance to assessors and tax collectors in several states. There was some movement toward more equal taxation. In their constitutions, a few states provided for taxation based on the value of property.

As the United States broke away from England, about 10,000 Loyalists headed north to Canada. Already accustomed to local self-rule through elected bodies, Loyalists agitated against the colonial government until they won the right to elect their own officers. Local taxation to raise revenue and provide local services naturally followed. Issues of equality and fairness arose in Canada as property taxation became more common.

By the beginning of the nineteenth century, the idea of a uniform tax based on the value of all property owned was widespread. The first constitution of the state of Illinois, adopted in 1818, contained a "bill of rights" provision that each person should pay a tax "in proportion to the value of property that he or she has in his or her possession". Although Illinois ignored the provision for twenty years, the idea spread, and most state constitutions adopted or revised in the nineteenth century required uniform *ad valorem* taxation.

What little discussion of these provisions has been preserved makes clear that ownership of property was seen as a measure of ability to pay taxes. All property, tangible and intangible, was to be included in the tax base, and the property tax was to be the major source of revenue for state and local governments.

Administering the general property tax turned out to be difficult, especially when more complex forms of wealth and ownership and varied types of property developed. Taxing intangible property was a problem. Although some kinds of intangibles are wealth, which should be taxed, other kinds are merely rights over taxable tangible property. It was argued, for example, that a farm mortgage is a property right with value to its owner, but it is not economic wealth separate from the farm. Taxation of both farm and mortgage is double taxation of wealth. Various ways of dealing with this problem were tried, such as allowing the farm owner to deduct the value of the mortgage, but administrative difficulties were compounded by the ease with which intangible property could be hidden and by complicated questions of tax jurisdiction.

Early legislators and tax administrators struggled unsuccessfully with such problems. The growing complexity of property rights made the problem even more difficult and led most governments to abandon the *ad valorem* taxation of intangible property. Tangible personal property (movables) presented problems of discovery and valuation. Some personal property can be hidden from the assessor or moved out of the jurisdiction on assessment day. Even in the colonial period, there were stories of cattle being driven into the

wilderness to avoid taxation. One of Abraham Lincoln's first cases is said to have dealt with the taxation of a ferryboat that was tied up on the opposite side of the river on assessment day. Such problems multiplied as personal property became more complicated, specialized and mobile. Some taxing jurisdictions still include personal property in the tax base, more often in the United States than in Canada.

In Canada, assessment is administered and regulated centrally in most provinces and territories, often carried out provincially by appointed independent assessment bodies such as BC Assessment (BCA) in British Columbia, the Municipal Property Assessment Corporation (MPAC) in Ontario, or the Saskatchewan Assessment Management Agency (SAMA) in Saskatchewan. In some provinces such as Alberta, local jurisdictions both regulate and carry out assessment, although the provinces usually remain responsible for assessment in sparsely populated areas and provide oversight.

At the beginning of the twentieth century, the property tax remained the major form of revenue in both Canada and the United States, but it was apparent that the dream of a uniform tax on all wealth had not been achieved. Criticism of the tax was widespread. It was attacked as being unsound in theory and in practice. Tax administrators and academic experts suggested that the attempt to tax all kinds of property be abandoned and that higher levels of government seek other sources of revenue, leaving the property tax to local governments. Other suggestions included new administrative organizations and new methods of assessment (while there was no immediate rush to follow this advice, over the years many changes have been made in administrative practices).

The idea of taxing all wealth uniformly has also been abandoned. Many kinds of tangible and intangible personal property have been exempted from taxation, although some exempted property has been subjected to *in lieu* taxes not based on value. Exemptions have also been granted to achieve social ends such as encouraging economic development or benefiting the poor. Several provinces have adopted comprehensive classification systems in which different kinds of property are assessed at different percentages of value.

Property tax administration has improved. Early in the twentieth century, many jurisdictions adopted systematic methods of appraisal that used land value maps and manuals based on construction cost data. Property owners were often satisfied that all property was being treated alike. By about 1910, economists and appraisers had developed the outlines of appraisal theory as it is known today. The three approaches to value – the cost, income, and direct comparison approaches – had been developed. Some assessors began to apply them systematically, and they are still the standard approaches used.

In 1934, the National Association of Assessing Officers was formed to improve assessment quality. This organization, now known as the International Association of Assessing Officers (IAAO), prepares educational materials, conducts classes, and provides technical assistance to assessors and governmental bodies. Many jurisdictions use IAAO courses and materials for staff training. An IAAO designation program allows assessors to earn certification of their qualifications to appraise for tax purposes. Techniques for mass appraisal (appraisal of a group of properties, not just a single property) have improved the efficiency of assessment offices. Modern mapping techniques and low-cost computers have made mass appraisal procedures more sophisticated and efficient.

## **Role of Local Government**

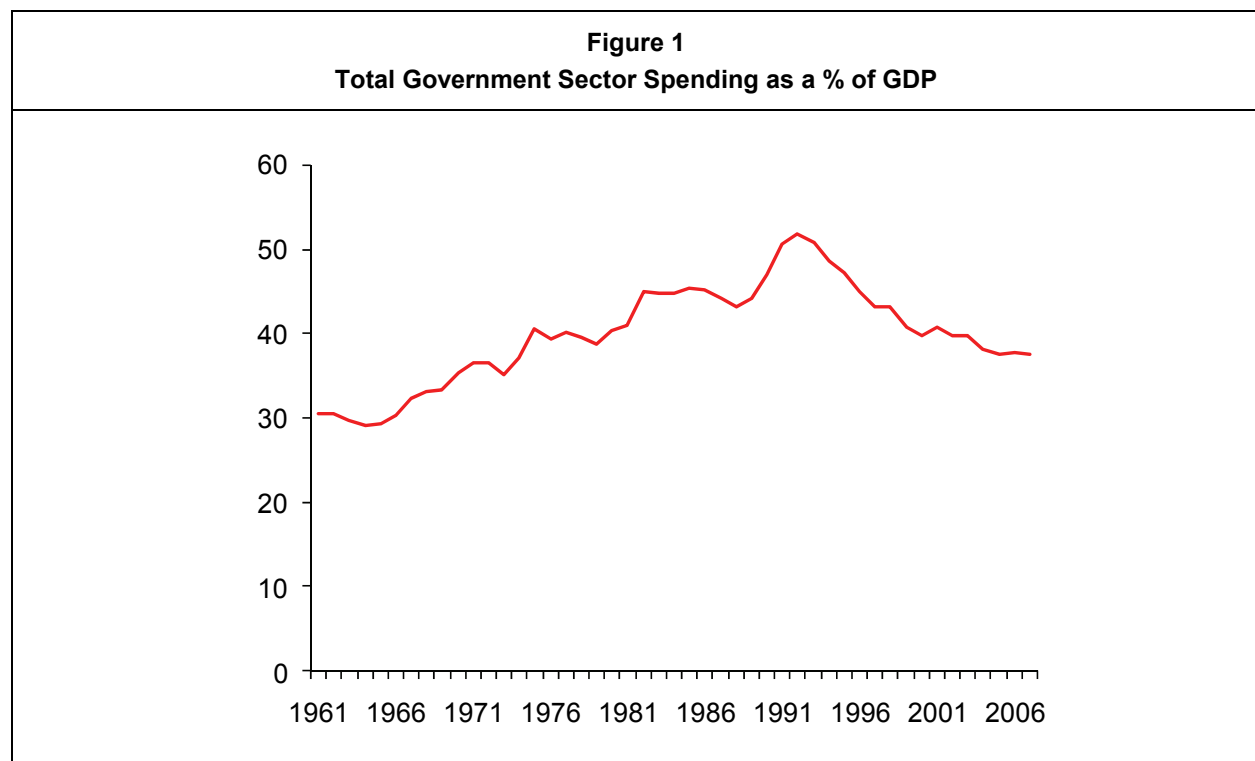
The *British North America Act* of 1867 (now called the *Constitution Act*) created the division of taxation powers between the two levels of government in Canada: the federal and provincial governments. The federal government had been given the major functions and, therefore, was given unlimited taxation powers. Provincial governments were expected to play a relatively minor role so their taxation powers were limited to direct taxation. Most provinces ceded all of the property tax base to the newly created local governments

for local financing requirements. Local governments remain to this day completely under the control of provincial governments. Although the notion of local government is firmly entrenched in the democracy of Canada, the rights and responsibilities of local government are set out by provincial legislation, which can be amended or revoked at any time.

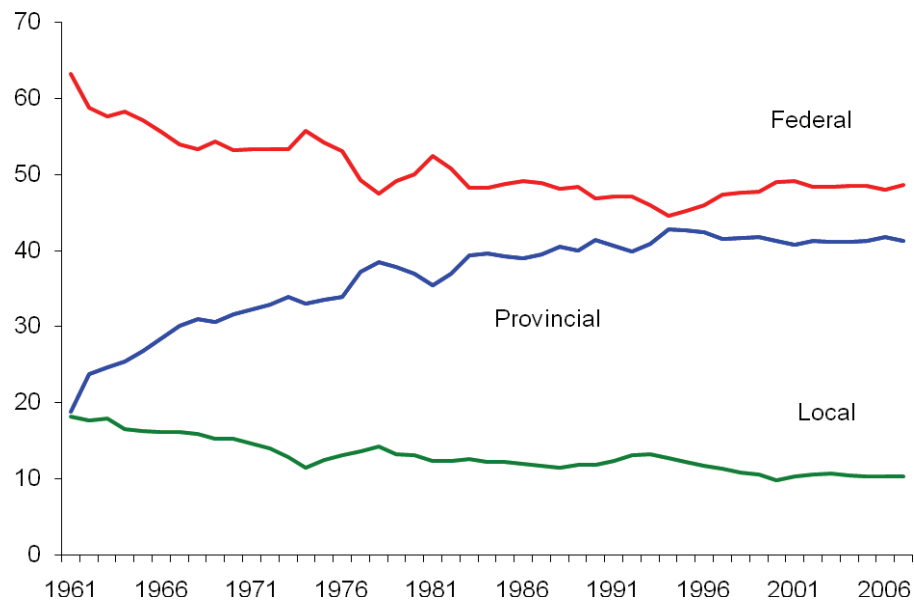
People in small areas initially elected local governments to look after roads, schools, the water supply, and police and fire protection. They raised their own taxes and borrowed money to pay for services. This made sense in a country of small and scattered towns and villages. In 1867, only one Canadian in six lived in one of the 21 urban communities of greater than 5,000 people.

Today, only 20% of Canadians live outside an area of less than 1,000 people. Many of these rural dwellers live on the outskirts of sprawling cities and towns. The rise in industry and population growth dramatically changed the nature of local government. In fact, the expectations of Canadians with respect to services provided by *all* levels of government have significantly changed. Universal access to health care and education, once considered a privilege, is now treated as a right. Governments currently undertake massive redistribution of wealth to maintain basic minimum standards of living, something that would have been inconceivable one hundred years ago.

A changing society had led to provincial and local government roles that became much more important than was originally intended. The following graphs illustrate increasing government expenditure (up to 1993 with a decline to 2001 and a fairly level period afterwards) and the changing composition of tax burden (until roughly 1996).



**Figure 2**  
**Distribution of Tax Burden, All Provinces and Territories (%)**



Today, in general, the following services are provided for by local governments:

<b>Table 1</b> <b>Local Government Services</b>	
Education	primary, elementary, and secondary schools
Culture and Recreation	parks, swimming pools, ice arenas, community centres, libraries, and art galleries
Health and Welfare	public health services, ambulances, welfare administration
Housing	building permits and standards, homes for the elderly, low cost rental housing
Land Use	planning and zoning
Protection	police, fire, animal control, building and construction, emergency measures
Transportation	public transit, streets, roads, traffic control
Utilities	water collection, disposal of garbage, and sewer

## Property Taxation Theory

### Rationale for Property Taxation

The rationale for property taxation rests on two fundamental principles: the principle of benefits received and the principle of ability to pay.

Under the principle of benefits received, a tax levied on the owners of real property is justified because of the benefits that accrue to properties due to the actions of local governments. Local governments provide such services as roads, sidewalks, sewer, water, and fire protection. Because these services directly benefit local property owners, it is the property owners who should pay for them.

The principle of benefits received is used to argue that property tax should only be used to finance property-related services, not people-related services. The benefits received principle is not followed where the property tax finances services that are enjoyed by property owners as well as non-property owners; for example, local schools, community health centres, parks, recreation centres, and subsidized rental housing.

While it is true that the relationship between the benefits that accrue to property and certain people-related services is indirect and difficult to determine, that does not mean property is unaffected by these services. This argument is usually advanced by ratepayer or property owner groups. The basis for this is their belief that renters or tenants do not pay property tax and therefore should not receive benefits from this tax. As discussed below in the "Property Tax Incidence" section, most owners of rental properties are able to pass on the tax burden to their tenants, either directly as a part of the lease agreement, normally for commercial properties, or as a part of the rent for most residential properties. In many jurisdictions, homeowners receive a tax reduction if they reside in their own property. This is not received for rental properties. Also, some jurisdictions apply a higher tax rate to apartment properties than that applied to single-family properties. When either of these situations apply, the tenants pay a larger burden of property tax than do owners. Thus, there is little justification for the argument that only property-related services should be paid from the property tax levy. Regardless, in every taxation system there should be a relationship between the taxes that people pay and the benefits they receive.

The second principle states that taxpayers should pay taxes according to their ability to pay them. Under an *ad valorem* property taxation system, the value of one's real property is used as a proxy for one's ability to pay. The property tax is therefore a tax on wealth, where wealth is estimated by the value of one's real property. Those who own higher valued properties pay higher property taxes. This principle is also cause for criticism of the *ad valorem* tax system because owning a high valued property does not automatically translate into the ability to pay higher property taxes. Real estate is an illiquid asset that, while attaining a high value, does not lead to more cash with which to pay property taxes. For this reason, virtually all provinces and territories provide relief from property taxation for those with low or fixed incomes.

### Property Tax Incidence

The incidence of property taxation answers the question, "Who pays the property tax?". While the owner of property is legally responsible for payment of property taxes, he or she may try to transfer payment of the tax to someone else (like an apartment building owner transferring the property tax to the tenants by "burying" the property tax in the rent). Transferring the property tax is referred to as "shifting the tax". The settlement of the burden of the tax on the final taxpayer is called the *incidence* of the tax.

A regressive tax is one which represents a larger proportion of income for those who earn a lower income than for those who earn a higher income. On the other hand, a progressive tax represents a larger share of



income for higher income earners than those with lower incomes. Proportional taxes are neither regressive nor progressive; they are proportional to income. Pure income tax is a progressive tax because tax rates increase as income increases. It is often argued that sales taxes are regressive because those with lower incomes spend a larger proportion of their income on consumption.

There are two points of view regarding the regressiveness and progressiveness of property taxes: the "old view" and the "new view".

### **The Old View**

The traditional approach to the incidence of property taxation maintains that everyone shifts taxes to consumers. For example, as mentioned previously, a landlord shifts property taxes to the tenant by increasing the rent charged; or, the owner of a manufacturing plant shifts taxes to consumers by increasing the prices charged for the firm's products.

The old view divides the property tax into two components: the tax on land and the tax on improvements (buildings). Land is assumed to be fixed in supply. Therefore, the portion of the property tax that falls on land must be borne by landowners alone because they cannot shift the burden to others by altering the quantity of land supplied. The tax is simply capitalized into the value of the land resulting in a lower price. Property tax reformists cite this relationship as the major strength of land or site value taxation.

The supply of structures, on the other hand, can be altered through investment decisions. The portion of the property tax that falls on structures can be shifted forward to the consumers of goods and services provided by the structures. If the supply of structures is assumed to be perfectly elastic in the long-run (i.e., the supply of structures changes with changes in demand), all of the tax on structures can be shifted forward to the consumers of the goods and services produced by the structures.

Criticism of the old view begins by questioning the assumption of a fixed supply of land. The supply of land can be increased by using landfill or altering municipal boundaries. Land, particularly agricultural land, can also be subjected to more-or-less intensive use. If the supply of land is not fixed, taxes on land will affect the quantity of land supplied and may be shifted rather than capitalized.

Even if the supply of land were fixed, present landowners would bear only those increases in property taxes that have been imposed since they obtained the property. All earlier taxes on land would have been capitalized into the purchase price. Structures also have differing importance in the production of goods and services and, therefore, taxes cannot be fully shifted forward. Tax is not proportional to output, so it cannot be shifted by firms with a tendency to use a greater amount of taxable improvements without risking a loss of business to firms who use a lesser amount of improvements.

### **The New View**

The new view is basically a change in the perspective from which the incidence of property taxation is viewed. The old view deals with the tax in a particular locality while the new view focuses on the incidence of the tax in the country as a whole. The new view assumes that assessments are accurate and up-to-date and that the property tax is imposed at a uniform rate, across the country, on all forms of property. Proponents of the new view believe the supply of land is fixed and, in the short-run, the supply of capital is fixed.

If the total supply of land and capital are fixed, the burden of tax must be borne in proportion to the ownership of capital. The effect of the property tax is to lower the profits of capital owners and landowners. Because capital ownership is more highly concentrated than income, the property tax must be progressive in its incidence.



The general conclusion of the new view is that property tax is borne more in proportion to the receipt of income from capital than it is in proportion to consumption. Capital ownership is progressively distributed with respect to income and therefore, the property tax is progressive in its incidence.

Traditionalists counter the new view by noting that some forms of capital are exempt from tax. Because the ownership of non-public exempt property (e.g., intangible personal property such as stocks and bonds) is concentrated among upper income persons, the property tax can be regressive even under the new view.

Critics also note that effective tax rates between jurisdictions are not uniform as assumed by proponents of the new view. These problems lead to excise tax effects (i.e., that part of the tax which is shifted forward to consumers). Differential taxes on land are capitalized into price. Differential taxes on capital lead to movements in capital among industries and taxation jurisdictions.

Proponents of the new view recognize these excise tax effects exist. However, across the country as a whole, excise tax effects cancel one another so that the final incidence falls on capital owners. Furthermore, no one municipality can keep tax rates excessively high in the long-run without supplying better services because capital will relocate in a lower tax community. On the other hand, where differential tax rates are the result of differential services to properties, capital will not necessarily move to jurisdictions with lower effective tax rates. The tax may be considered as the price paid for the particular bundle of services supplied by that particular municipality. Thus, effective tax rates need not be uniform for the new view to accurately describe the incidence of taxation.

### **Reconciliation of the Old and New Views of Property Tax Incidence**

Empirical studies of the old and new views of taxation have led to conflicting results. The procedure for empirical tests on property tax incidence begins by making assumptions regarding the incidence of property tax. Then, total property taxes collected are allocated to different income classes according to a distribution that reflects the assumed incidence. Finally, taxes are shown as a percentage of income. Three variables affect the results: the income concept employed, the distributive proxy chosen, and the initial incidence assumptions made. Thus, empirical tests can be designed to reflect different outcomes; this is part of the reason for the conflicting results of different studies.

Given the above procedural problems, several general conclusions of empirical tests regarding the incidence of property taxation can be noted:

1. Use of permanent income (an estimate of income which involves both current and future expected incomes) or wealth yields a proportional or progressive incidence of property taxation.
2. The new view indicates that taxes are progressive at higher income levels, progressive or proportional at middle income levels, and proportional or regressive at lower income levels. Regressiveness at lower income levels is linked to poor assessment administration and a concentration of home ownership among retired persons on fixed incomes.
3. Several distorting administrative features lead to a more regressive property tax system. These include administrative features which provide more benefits to those with higher incomes, such as the deductibility of property taxes from personal income (allowed in the United States but not in Canada), nontaxation of imputed rents received from living in one's house, and nontaxation of capital gains. Property tax relief which is based on criteria other than wealth or ability to pay (e.g., age) leads to a more regressive system. Finally, jurisdictions which tax business and industry at a higher rate than residential properties distort the incidence of property taxation.
4. Proper assessment administration is crucial to an equitable property tax system.

The new view of the property tax as a tax on capital is now widely accepted by researchers. Within a municipality however, the traditional view, using permanent income, more accurately explains property tax incidence.

## **Components of an Ideal Property Taxation System**

A discussion of property taxation would not be complete without a set of criteria that would exist in an ideal property taxation system. Five such criteria are outlined below.<sup>1</sup>

### **Administration**

The administration of the property taxation and assessment system should be simple and efficient. It should raise revenue in a cost effective manner and be easily understood by taxpayers.

### **Accountability**

Accountability implies tax policies should be clear and hidden taxes avoided. There should be a direct relationship between locally raised taxes and local expenditures. There is less tendency to over-supply services when those receiving the benefits must pay for them. Tax exporting should be avoided. Tax exporting refers to a municipality's ability to raise revenue by taxes levied on taxpayers who live beyond the municipality (e.g., taxes levied on a manufacturing plant which exports its products). However, accountability is violated when a nonresident consumes local services (e.g., parks and recreation or cultural centres).

### **Neutrality**

A neutral tax is non-distorting: landowners are not inclined to behave in a certain way to avoid the tax. In other words, after the imposition of the tax, there should be no change in the way property owners use their property.

### **Fairness**

Fairness implies horizontal and vertical equity. Horizontal equity requires the equal treatment of equals; that is, all properties of identical taxable value should be taxed in the same way. Vertical equity requires the unequal treatment of unequals; properties of greater taxable value should face higher taxes. With regard to equity, most taxes focus on income as a measure of ability to pay (e.g., the income tax). The property tax however, is a tax on wealth. Clearly, if all taxes were based on income, the tax system would not be fair. Under these circumstances, two individuals with exactly the same taxable income but different amounts of wealth would pay exactly the same tax.

### **Stable Tax Base**

The property tax should provide stable levels of tax revenue, since the services provided by local governments remain relatively constant regardless of the level of local economic activity. Local governments should also be able to reasonably forecast the level of property taxes attainable from year to year.

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<sup>1</sup>Adapted from Harry Kitchen. *Alternative Methods of Taxation and Assessment: A Report Prepared for the Task Force on Reassessment in Metropolitan Toronto*. August, 1989.

## An Overview of Property Tax Around the World

A tax on property exists in about 100 countries, but its importance varies. In most countries, property tax revenue is from 1% to 3% of the total tax revenue for all levels of government. In Canada, this figure was 8.5% based on 2007 figures; this is comparable to the United States where the property tax represents approximately 9% of total tax revenue. Some other English-speaking countries also rely heavily on property tax. The United Kingdom, Portugal, Spain, and Indonesia have recently instituted major reforms of the property tax.

In many developing countries, assessment administration needs to be modernized and improved. Revenue is desperately needed to maintain and expand the infrastructure in fast-growing urban areas, yet collection is hampered because many properties are not listed on the tax roll, and revenue is lost because recorded values are below true market value.

In many countries, computers have been introduced during the past few decades to support property tax administration. Collection and printing of tax bills has been computerized and some countries have successfully used computers in the time-consuming process of estimating value.

Comparison of the policies and practices of different countries can be useful to governments planning reforms or modernization. On the other hand, the property tax and its administration differ from country to country. A solution that works well in one country might be disastrous in another. The tax base, what is being taxed, the person responsible for payment, the governmental level controlling the system, the degree of integration of assessment administration with other agencies in government, and administrative capabilities are different from country to country.

### Tax Base

The tax base – the object being taxed – can vary. Some countries have several different taxes on property, each with a different base. In some countries, land and improvements are taxed; in other countries, only land. The value taxed may be market value (the highest price a property will bring in a competitive and open market) or annual rental value.

Canada and the United States have one property tax, and the tax base is the market value of land and improvements. France has three different property taxes, all based on annual rental values. Denmark has a land tax, based on the market value of the land alone and supplemented by a service tax based on the market value of buildings used for commercial or administrative purposes. Japan uses market value as a base and taxes both land and improvements.

A few countries use square metres of land or buildings as a surrogate for value and then levy the tax as an amount per square metre for different types of properties. In the Netherlands, municipalities can elect to use either area or market value as a basis for taxation, although most use market value. In South Africa, a municipal value (often lower than the market value) is taxed. In South Korea, buildings are taxed on replacement cost, while land value is set using a "benchmark" system that ensures the range between the highest and lowest values does not exceed 20%. Taiwan has three property taxes: a house tax on improvements, a land value tax on the current market value of land, and a land value increment tax, paid when land is sold at a profit. Israel's tax is not *ad valorem*, but uses a schedule to establish per square metre rates based on location and either age and type of building or size of land area. Israel also has a land betterment tax and a land increased value tax.

Opinions differ about which tax base is best – annual rental or market value, land and improvements, or only land. The choice between annual rental and market values may not make a big difference. The key issue in choosing the best tax base is the kind of market evidence available – rent information or sales prices. However, annual rental values do not include the value of future development, and vacant land is not usually taxed when the annual rental value is the tax base. Market value is, thus, the best tax base in countries where speculative hoarding of urban land is common (for example, many developing countries). Changing the tax base is a major operation. Recent property tax reforms in Indonesia and Portugal, however, have included a change of the tax base from annual rent to market values.

Whether improvements should be included in the tax base has been the subject of heated debate. In the nineteenth century, Henry George formulated his theory of the "single tax". As discussed earlier, he argued that only one tax was needed, and by far the best and fairest would be a tax on land value only. The tax should be high enough to equal the economic rent of the land attributable to society and not to the effort of the owner. These ideas have inspired other economists, who argue that a land tax would encourage urban development. Some countries (such as Denmark and Australia) do have land taxes, but the benefits of a land tax as compared to a tax on both land and improvements are not clear.

When the tax base is market value, the usual standard is that properties should be valued at their highest and best (most profitable) economic use, yet many exceptions to this rule exist. Some countries value all properties at current use; others reserve that standard for certain types of property only, such as agricultural land.

Exemptions also affect the tax base. Many countries exempt public areas and property owned by charities, educational and religious institutions, and governmental bodies. Some countries exempt major property classes, for example, agricultural land in the United Kingdom and the Netherlands or owner-occupied houses in Portugal and Thailand. This can result in a narrow tax base.

## **Responsibility for Payment**

Responsibility for payment of the property tax also differs from country to country. In Canada, the United States, and many other countries, assigning the owner responsibility for payment is usually combined with the government's right to seize the property and sell it if the tax is not paid. If this right is exercised, tax collection will usually function well. In many developing countries, the occupier is responsible for payment, which can make collection difficult. If sanctions against the occupier who does not pay have been rarely used, it is politically difficult to step up enforcement. Many developing countries with weak enforcement experience serious problems in collection of the property tax.

## **Local versus Central Administration**

In Canada, the property tax is used for services of local governments (school districts, municipalities, regional districts, and counties). Local jurisdictions administer the tax, with centralized or decentralized assessment, supervised by the provincial governments. In most other countries the property tax is also local, but higher levels of government often have a stronger role in its administration. The central government is often responsible for valuation (as in France, Germany, the United Kingdom, Sweden, and Denmark) or coordinating it. Central government may also collect the local property tax (France, Sweden, and the Netherlands). Central control of assessment promotes uniformity of administrative procedures. Computer systems are either centralized or uniform local systems.

## **Integration of Assessment Administration**

The extent to which property assessment administration is integrated with administration of other taxes and with other activities based on land information varies from country to country. In Canada, the property tax is usually administered independently of other administrative offices. All information about properties is gathered by the assessor, who produces an assessment roll. The assessed values are used only for the property tax. Usually, cooperation has been established with the land registrar, from whom the assessor receives information about sales prices and changes of ownership.

Other countries have established more integration. If a national cadastre (inventory of land by ownership, description, and value) exists, cadastral maps and parcel identification numbers can be used for the property tax, and the building authority can supply information about the buildings. City planners and other officials can use information gathered by assessment administrators. Other taxes related to property may be based on assessed values; for example, a net wealth tax or an income tax on the imputed rent of owner-occupied homes.

One country with extensive coordination along these lines is Denmark, where a network of computerized multipurpose land information systems, using parcel numbers and street addresses as cross references, has been operating since the 1970s. An extensively computerized valuation system produces values that are used as the basis for the property tax, net wealth tax, and income tax of the imputed rent of owner-occupied homes.

## **Administrative Policies and Capabilities**

The quality of valuations can be affected by administrative policy and technological sophistication. For example, a policy of high transfer tax rates may deter buyers and sellers from recording transfers or stating accurate sale prices.

In British Columbia and Ontario, for example, the transfer tax is approximately 1% of declared value. Several other countries have low transfer tax rates, but most have high rates (Cambodia, 4%; France, 5%; Portugal, up to 8%). One consequence of high rates may be that declared sale prices are unreliable and will not be good indicators of market value. This situation in many countries, especially developing countries, makes it difficult to achieve accurate valuations.

In an ideal system, a reappraisal (an updating of values for all properties in a jurisdiction) would be done annually. Frequent reappraisal, especially where property values are changing rapidly, may be essential to the fair distribution of the property tax. In most countries, the law requires a reappraisal at specified intervals, usually every three, four, or five years. In some countries, however, reappraisal has been delayed for a long period. In the years between reappraisals, some countries index property values by computer according to price trends for different types of properties (e.g., France).

In general, the quality of valuation is high in Canada. Revaluations are usually frequent and accurate, especially where sophisticated computer systems are available. Valuation accuracy is expected in Canada and there is a willingness to use resources to achieve it, perhaps as a consequence of the high effective rates that make accuracy more important. Also, property tax administration is less subject to budget cuts because of its importance to local governments.

In developing countries, little money is available for administrative improvements, and administration often functions poorly for reasons that cannot be remedied by a higher level of technology. A common problem is that civil servants are underpaid. This makes administration open to corruption or forces the staff to hold second jobs.

Developing countries setting goals for improvement of assessment administration should focus on the accurate estimation of market values, not on sophisticated systems and models. Because declared sales

prices are often unreliable, an attainable goal might be to develop simple valuation models based on common sense, cost figures, traditions, and sporadically reliable sales prices. Using these models in the valuation process will improve its quality and equity even if the resulting values do not equal true market values. Only a few land and building attributes that are inexpensive to gather and update, and easy to verify, should be included in the model. Characteristics visible from the street or information available from independent sources fit these criteria. Finally, in many developing countries, improvement of tax collection and expansion of the tax roll to include all taxable properties are as important as improving valuation procedures.

## Property Tax Assessments, Levies, and Rates

Underlying the diverse laws and regulations governing the property tax is a common structure, reflected in the use of terms such as *tax levy*, *assessment*, and *tax rate*. Within this structure is a clear and consistent delineation of responsibilities for valuing property, determining the total amount of property taxes to be raised, computing the amount of property tax to be paid on a single parcel of property, and collecting taxes.

The assessment function and the role of the assessor are integral parts of a property tax structure. To understand assessment administration, it is first necessary to understand the relationships among appraised value, assessed value, tax levies, and tax rates.

The *appraised value* of a property is an appraiser's judgment as to the full market value on a specific appraisal date. It is the responsibility of the assessment office to determine the appraised value of each parcel of property in their jurisdictions.

The terms *assessment* and *assessed value* are often interchangeable. Assessment may refer to the assessed value of a single parcel of property, the total assessed value of all properties within the boundaries of the tax jurisdiction, or the assessed value of any group of properties.

Assessed values are usually based on the appraised value of property. The term *appraised value* distinguishes full value from assessed value when the assessed value is a proportion of full value. Under an *ad valorem* taxation system, the assessed value of property for tax purposes must represent either the full fair market value of the property or a specified fraction, or percentage, of such value. The fraction of market value to be used for assessment purposes will be specified by statute. Whether assessments are at full value or a proportion thereof is a legislative policy decision, not an administrative one.

A *property tax levy* is the total amount of money to be raised from the property tax, as set forth in the budget for the local government or tax jurisdiction. This levy, whether higher or lower than the preceding year, is determined by the budget-making authority of the local government. It is usually recommended by an administrator (for example, a city official or school superintendent) and adopted by the local legislative body (city council, county board, or board of education).

The nominal *tax rate* is simply a mathematical expression of the relationship between the tax levy and the total assessment for the jurisdiction: the levy amount is divided by the total assessment amount to give the nominal tax rate. For example, if a municipality needs to raise \$15,000,000 and the total assessment for the jurisdiction is \$937,500,000, the nominal tax rate is 1.6%.

$$\$15,000,000 \div \$937,500,000 = 0.016 = 1.6\%$$

In other words, the municipality would have to apply a tax rate of 1.6% to each property within its boundaries to collect the \$15,000,000 it requires.



The tax rate is usually expressed as dollars per \$100, mills per dollar, or dollars per \$1,000 of assessed value (in the example above the tax rate could be expressed as \$16 per \$1,000 of assessed value). The tax for each parcel is calculated by multiplying the parcel's assessed value by the nominal tax rate for the jurisdiction so that the tax for each parcel is at the same percentage of assessed value; the tax is, therefore, a tax according to value.

**Definitions**

**Mill:** One-thousandth of one dollar or one-tenth of one cent.

**Millage rate:** A tax rate expressed as mills per dollar. For example, a 2% tax rate is \$2 per \$100, \$20 per \$1,000, or 20 mills per dollar.

Source: IAAO.

The *effective* tax rate, although mathematically related to the nominal tax rate, is not directly used in the calculation of property taxes. It is the proportion of tax dollars to full market value and may be calculated for all properties, a single parcel, or any group or stratum of properties (for example, residential property). If variations exist in the levels of assessment for different classes of property, effective tax rates will also vary among the classes. The effective tax rate is the only way to compare the effect of the property tax across jurisdictions. To calculate the effective tax rate, divide the property tax by market value. For example, the effective tax rate of a property with a market value of \$100,000 and a property tax of \$1,200 is 1.2%.

$$\$1,200 \div \$100,000 = 0.012 = 1.2\%$$

If properties are appraised at market value, but taxed on some fraction of market value, the effective tax rate can also be calculated by multiplying the nominal tax rate by the assessment ratio or assessment level (proportion of assessed to appraised or market value) for the property in question. For example, if a property is appraised at its full market value, but the assessment ratio is 0.50 (that is, taxes are charged on only half of the full market value), then given a nominal tax rate of 2.6%, the effective tax rate is 1.3%.

$$0.50 \times .026 = 0.013 = 1.3\%$$

If a property is appraised at market value and taxed on 100% of the assessment (appraisal), the nominal tax rate equals the effective tax rate. Taxation of 100% of value is a simpler system and easier for taxpayers to understand.

## The Role of the Assessor

The assessor is critically important to the effective administration of the property tax and, indirectly, the vitality of local governments. Appraised values, as the basis of assessed values, determine the distribution of property tax levies among taxpayers. Only if these values are correct will tax limits, debt limits, and the distribution of provincial grants to localities be as the legislature intended.

Assessing officers are known officially by a variety of names – valuator, assessor, appraiser, or assessment commissioner – but the term *assessor* is probably the most commonly used in Canada. It is the assessor's duty to list all taxable property and estimate values in accordance with the laws that govern the jurisdiction.

In Canada, assessors are appointed by provincial or municipal governments. They may administer jurisdictions as small as a township or village or as large as a province. Many aspects of the assessor's work are spelled out in statutes. The statutes may also define value, list the information to be included on the assessment roll, and provide a timetable for completing various duties. These duties are carried out within



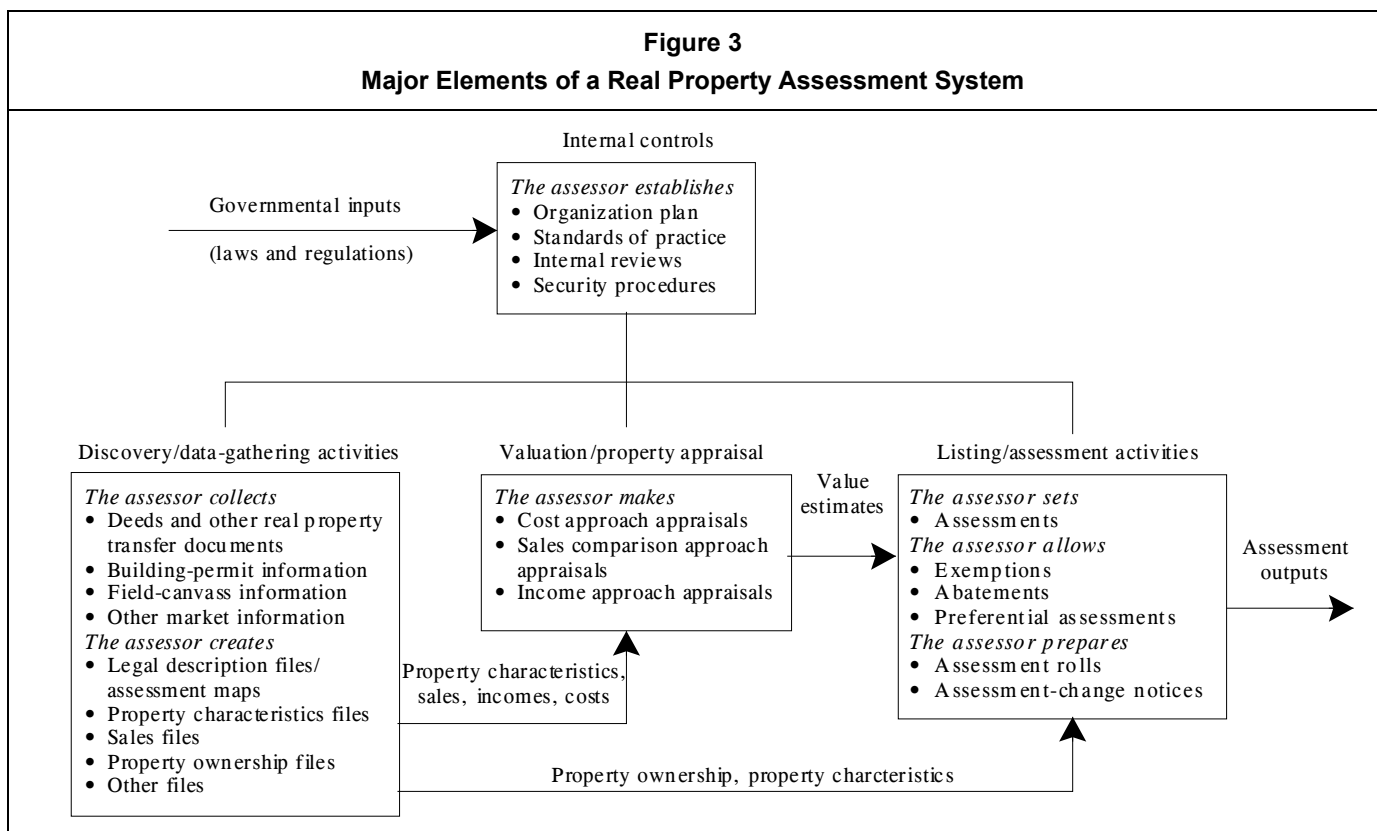
an administrative and political system that includes many other elected or appointed officers. The assessor may work closely with local government staff who are responsible for preparing forms, computing the tax bills, and collecting taxes. It is important for local governments to obtain timely information about assessed values.

Other branches of government oversee the assessor's work. A governing board or a superior officer of the jurisdiction reviews and approves budgets prepared and defended by the assessor. Provincial agencies may also supervise assessors.

Valuations are subject to appeal to a quasi-judicial board of review. Taxpayers always have the right to appeal assessment procedure to the courts, and, in some jurisdictions, courts may be asked to review assessed values.

## Real Property Assessment Systems

A real property assessment system organizes resources to carry out the primary assessment responsibilities of discovery, listing, and valuing properties in accordance with property tax policy. Figure 3 is an overview of such a system.



Responsibilities related to assessment include supervision, handling of appeals, appraisal review, and equalization.

*Supervision* describes a variety of oversight or coordination activities. These include fact-finding and analysis, providing appraisal tools and equipment, providing technical and professional services, educating and certifying appraisal personnel, and enforcing laws, regulations, and standards.

*Appeal* refers to the process whereby taxpayers may challenge their assessments (including questions on value, classification, and exemption).

*Appraisal review* describes the examination of assessments by a quasi-judicial board of review that has power to alter individual appraisals on its own initiative in order to correct clerical errors, assess a previously omitted property, exempt a property that was assessed in error, disallow an exemption, change a classification, and correct appraisal inequities. Administrative appeal bodies have the power to review appraisal values.

*Equalization* describes the process by which an agency with authority over two or more assessment districts makes adjustments to the total appraised values (or assessments) of the districts (interjurisdictional equalization) or of classes of property within the districts (intra-jurisdictional equalization), or both. Equalization ensures that the total appraised (or assessed) values within the agency's jurisdiction all bear the same relationship to total market value and thus the taxing is equitable within its area of control.

The following sections outline the primary tasks performed by assessors working toward completion of an assessment roll.

## **Locating and Identifying All Taxable Property in the Jurisdiction**

An accurate set of cadastral maps that plot every parcel of land is the assessor's major tool for identifying and locating taxable real property. A cadastral map is a scale map showing the dimensions of each parcel and related information such as parcel identifier, survey lines, and easements. If personal property must be assessed, the laws usually prescribe administrative procedures to locate and identify it. For example, the taxpayer may be required to file a return listing taxable personal property with the assessor, who then audits the return.

## **Making an Inventory of the Quantity, Quality, and Important Characteristics of All Taxable Property**

An inventory is essential to the accurate valuation of properties and to the assurance of equity in the taxation of similar properties. An on-site inspection is almost always necessary to complete an inventory. Additional information can be obtained from building permits, subdivision plans, and building plans.

## **Estimating the Value of Each Taxable Property**

Assessors use all appropriate appraisal techniques to estimate value. The quality of their estimations is critical to the equitable distribution of the tax burden. Assessors use three basic approaches to estimating value: the cost approach, the direct comparison approach, and the income approach. Historically, properties have been appraised one at a time. Increasingly, properties are appraised in groups (mass appraisal) with the assistance of computers. In many assessment areas (especially the larger ones), mass appraisal is now the only cost effective option to achieving a successful assessment system.

## **Determining the Extent of Taxability of Each Property**

To determine the extent of taxability of each property, the assessor must review legislation affecting the taxable status of properties and property owners in the jurisdiction. A thorough review must include not only the general taxable and exempt provisions of legislation, but also provisions of local legislation affecting individual property or property owners. Some legislation will provide that properties exempt from taxation must, nonetheless, be assessed; other legislation will provide exemption from assessment as well as taxation. The assessor must also research case law that may have interpreted the legal meaning of a specific legislative provision relating to the taxability of a particular type of property – a difficult task unless the assessor keeps up with legal interpretations as they occur.<sup>2</sup>

## **Calculating the Assessed Value of Each Property**

The property tax rate of each tax district in which a property lies is applied to its *assessed value*, the value appearing on the assessment roll, to determine the amount of the property tax.

Some provinces have established by law a percentage of market value at which the assessed value is to be set. Property may be defined by class with an assigned percentage factor. For example, single-family residential properties might be assessed at 60% of market value and industrial properties at 90%. The percentage factor is then applied to the market value of all properties within each class to generate assessed value.

## **Preparing and Certifying the Assessment Roll of the Entire Jurisdiction**

The assessor lists all properties in the assessment jurisdiction, usually on a printed form satisfying legislative requirements for preparation of the assessment roll. Then the assessor prepares a certificate (usually in a form regulated by statute) attesting to the sufficiency of the roll and to compliance with the statutory provisions for its preparation. Preparation of the assessment roll may be done by computer, typewriter, or hand. The assessment roll is then presented to the appropriate taxation authorities (often in electronic form) by the statutory date set for its delivery. The roll is reviewed, taxes computed, and tax bills sent out by the taxing authorities. Taxes are collected by the municipalities in organized areas and the provincial government in unorganized areas.

## **Notifying Owners of the Assessed Value of Their Properties**

Legislation usually requires that owners of properties be notified of the appraised and assessed values of their properties at the same time as the date set for the return of the assessment roll. In some jurisdictions, tenants must also be notified. In several jurisdictions, notification is required only when a change has been made from the previous assessment. The formal notification is called a valuation or assessment notice.

## **Defending Value Estimates and Valuation Methods During Appeals by Taxpayers**

All assessment legislation provides taxpayers with the right to appeal their assessments (the appraised values, classification, and exemptions). Assessors are responsible for the assessment roll, whether they themselves,

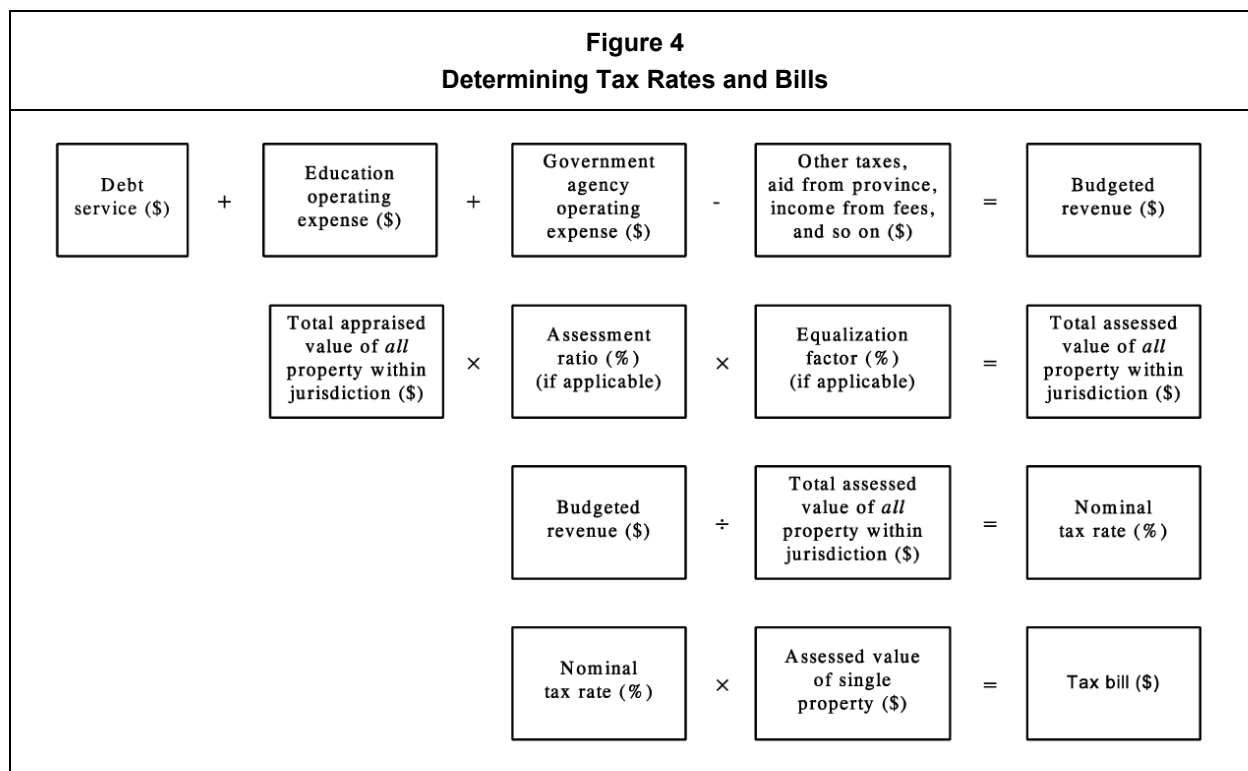
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<sup>2</sup> Recognized case reporting systems, such as British Columbia Assessment's *Stated Cases* system, are useful tools for keeping pace with legal developments.

or staff members, or contract appraisers made the appraisals. Assessors, therefore, must be prepared to justify all valuations and methods to the satisfaction of the appeal body and, ideally, to the satisfaction of the taxpayer.

## Calculation of Rates and Tax Bills

The calculation of individual property tax bills is the last in a series of actions taken by local government revenue officers (see Figure 4).



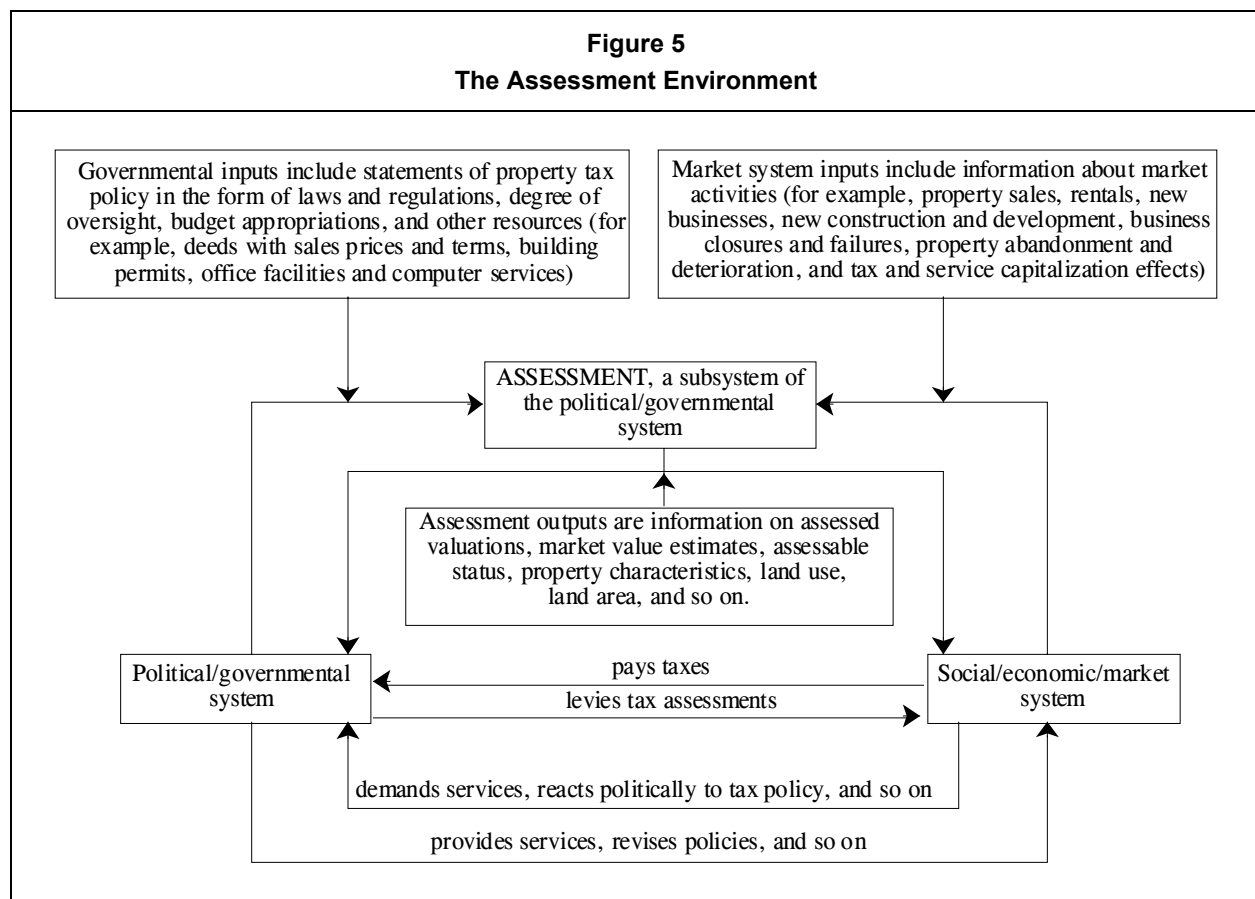
Most provincial assessment legislation requires that assessment rolls be prepared annually, because local property taxes are levied annually and must be based on ownership and property value information that is accurate as of a specified date. Thus, all of the activities of the assessor should be repeated annually or as is otherwise necessary to ensure that all property is appraised based on its market value.

The above activities sound deceptively simple. In reality, assessment is more complex. To understand assessment operations the following characteristics of assessment must be appreciated:

1. Because appraisal and taxation cycles are not necessarily of the same length, inequitable distribution of the property tax burden may occur. Taxation occurs annually, but in many jurisdictions, appraisal does not (whether by law or common practice).
2. Assessment activities are continuous and cause changes. Owners, values, and the nature of properties change. The very imposition of a tax may cause changes: capital investment may be discouraged or encouraged; tax burdens may cause owners to sell or abandon their properties; and the capitalization of new taxes changes market values. Appraisals should reflect these changes accurately.

3. Assessment tasks are performed simultaneously and are interrelated. The processing of property sales information, for example, provides information needed in discovery (size, shape, and location of the sold parcel), listing (name and address of the new owner), and valuation (price paid and information about financing).
4. Assessment is a shared responsibility. Legislatures establish assessment policy. Provincial and municipal governments supervise, maintain equalization, and sometimes share in assessment work. Administrative and judicial review and appeal agencies resolve disputes.
5. Assessment tasks are varied, complex, numerous, and difficult. The challenge is compounded by the need to appraise large numbers of properties inexpensively as of a single date.

Assessment takes place in an economic and political environment in which both the public and the private sectors are acting, reacting, and interacting. Assessors need to be especially aware of the political activities that change property tax policy and of the land-use and development activities of participants in the real estate market. The influences of these activities on assessment are shown in Figure 5.



## Property Taxation by Province

Provincial legislation establishes the organizational structure necessary for the assessment and taxation of property. In five of the ten provinces – Newfoundland and Labrador, Prince Edward Island, Nova Scotia, New Brunswick, and British Columbia – the whole assessment function is the responsibility of the provincial government or of an independent provincial Crown Corporation (British Columbia and Newfoundland, except for the City of St. John's). In Ontario, the assessment function is the responsibility of the Municipal Property Assessment Corporation (MPAC), a non-share capital, not-for-profit corporation funded by the

municipalities. In the other provinces, provincial responsibility ranges from full control of assessment in all municipalities except one or two of the larger cities, to no direct responsibility for the function other than requiring the use of a provincially prepared manual.

Each province provides an extensive system of exemptions from property tax liability. Many exemptions are set out in provincial legislation and are mandatory. Other exemptions, called permissive exemptions, are authorized by provincial or territorial legislation to be provided at the option of the municipality. Legislation governing local governments such as municipalities or regional districts typically specifies the extent of permissive exemptions authorized by the Province or Territory.

All property owned by the provincial or federal government is assessed as exempt property on provincial assessment rolls. The only exception is where that property is occupied by a taxable third party, in which case it is assessed as taxable to that occupier. A provincial government cannot levy a tax on the federal government and a municipality cannot levy a tax on either the federal or provincial governments. In these cases, the federal and provincial governments typically will pay a payment-in-lieu (or grant-in-lieu) of taxes to the taxing jurisdiction where the property is located. However, a provincial government can tax a municipality, which they do in New Brunswick and Prince Edward Island. In these provinces, both the province and the municipality share the proceeds of property taxes and they each set their own tax rates.<sup>3</sup>

Property of schools, colleges, and universities (used for educational purposes) are exempt in all provinces except New Brunswick.<sup>4</sup> Churches and cemeteries are exempt in all provinces. Public hospitals are exempt in all provinces except New Brunswick. Properties of many charitable organizations are fully or partially exempt from property taxation in Nova Scotia, New Brunswick, Quebec, Ontario, Alberta, and British Columbia. In Manitoba, properties of charitable organizations are exempt from school taxes.

Residential property bears a lower tax burden in all provinces. British Columbia, Prince Edward Island, Nova Scotia, New Brunswick, Ontario, Manitoba, Saskatchewan, and Alberta levy a lower tax rate or tax a smaller portion of the value of residential class property than for most other property classifications. Newfoundland does not give residential property comparable treatment. The tendency in this province is to apply more taxes to non-residential property in other ways (e.g., a business tax). Direct property tax relief in all provinces concentrates almost exclusively on residential property, although some provinces may have tax rebate schemes to subsidize new business development.

Business taxes are levied on the occupier of the non-residential premises based on the assessed value or gross annual rental value, with the exception of Alberta. In Alberta, business assessment is based on a formula using net rent or gross rent at the discretion of the municipality. Business taxes can be levied in all provinces except Saskatchewan, Ontario, Prince Edward Island, New Brunswick, and Quebec. Differential tax rates make up the difference between residential and non-residential property taxes in these provinces. In Newfoundland and Nova Scotia, business taxes are a mandatory municipal tax. Business taxes are not applied in BC and are optional in the other provinces.

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<sup>3</sup> An illustration may help to clarify these exemptions: the province would not pay taxes to itself based on the provincial portion of the tax rate. However, the province will pay the municipal portion as a grant-in-lieu of taxes. Similarly, a municipality would not pay taxes to itself on property it owned, but it would pay the provincial part of the taxes to the province. In Nova Scotia, the province does not collect any taxes, so they pay full taxes to the municipality as a grant-in-lieu. These governmental exemptions can get complicated: the federal government has its own Act which they administer across Canada and each province has its own exemptions or reductions, which can change from time-to-time. To be sure about specifics you have to check the "Exemptions" section of the appropriate *Assessment Act*. As one observer noted, the only thing common in exemptions is the way you spell "exemption".

<sup>4</sup> In a 2007 decision, BC's Property Assessment Appeal Board found that university property occupied by commercial entities was exempt from taxation on the basis that it was "used for university purposes" if these services are provided to the university community. In this case, the services included a travel agency, hair salon, pharmacy, chiropractic and massage facility, dentist, and food mart.

## Provincial and Territorial Overview

### Newfoundland

Except the City of St. John's, which completes its own assessments, an independent crown owned corporation performs the assessment. Property taxes are a discretionary municipal tax and there is no provincial component. All municipalities may vary the rate of taxation between residential and non-residential classes. Within both classes a uniform rate is applied. Business occupancy taxes are a percentage of assessed value. The percentage will vary by type of business and the municipality determines the classifications.

### Prince Edward Island

Property taxes are imposed at both provincial and municipal levels. Assessment is solely the responsibility of the provincial government where properties are differentiated as commercial and non-commercial. At the provincial level, real property taxes are \$1.50 per \$100 of value. A tax credit of \$0.50 per \$100 of value is applied to the non-commercial property of residents (must reside on PEI six months consecutively per year). Property not currently used for commercial purposes (e.g., residential, farm, and vacant commercial property) is classified as non-commercial property. To receive the credit for vacant commercial property, corporations must be at least 50% owned by residents. Seniors with an income below \$30,000 per annum can defer 100% of property taxes for their residence and the surrounding lot. The property tax owing is due upon property transfer or death of the owner.

### Nova Scotia

In 2008, responsibility for assessment transferred from the Nova Scotia Government (Service Nova Scotia and Municipal Relations, Assessment Services) to the Property Valuation Services Corporation (PVSC). The PVSC is a municipally controlled, not-for-profit corporation. The Province retained responsibility for assessment legislation and the administration and funding of the Regional Assessment Appeal Court (first level of appeal).

Properties are classified as either residential, resource, or commercial. Municipalities set varying tax rates for each class of property and the Province neither levies nor collects property tax. Local councils can exempt property taxation for taxpayers whose incomes are below a certain level or, if a taxpayer is over 65, widowed, or a single person supporting a dependent.

In the past, business taxes were based on a percentage of assessed value: 50% for most businesses, 75% for financial institutions, and 25% for restaurants, hotels, service stations, and campgrounds. However, the Business Occupancy Assessment has been partially eliminated and will be completely phased out by 2013. The phase out schedule is below:

25% category	- eliminated in 2006
75% category	- eliminated in 2013
50% category	- 2005 - 50% of realty assessment
	- 2006 - 40%
	- 2007 - 30%
	- 2008 - 20%
	- 2009 - 10%
	- 2010 - 0%, category eliminated



Nova Scotia has a Cap Assessment Program (CAP) in place since the 2005 assessment. The aim of this program is to help protect property owners against the tax effects of sudden and dramatic assessment increases in the market value of their property. The CAP limits the residential and resource assessment amounts that the Municipalities can use to calculate property taxes.

The Program base year is 2001, and the cap for the subsequent years was a 15% increase in 2002, 15% in 2003, and 10% each year from 2004 to 2007. Each year, a cap percentage was set by the Government. Starting in the 2008-9 taxation year, the cap is set at the Nova Scotia Consumer Price Index.

All properties continue to be assessed at market value as required by Section 42(1). The cap simply limits the amount of assessment increase that municipalities can levy in property taxes. Property owners who are eligible for a cap will be notified of both a market value and a capped assessment value. The municipalities use the capped assessment values to calculate the property taxes.

### **New Brunswick**

Assessments are performed by the province which also levies a provincial tax rate. Property is classified as either residential or non-residential. Some properties which fall into the residential category include schools, universities, hospitals, senior citizen and nursing homes, recreational properties, and community halls. The provincial tax rate is \$1.50 per \$100 of value on residential and \$2.25 on non-residential. At both the provincial and municipal levels, the non-residential rate must be set at 1.5 times the residential property tax rate. The province grants relief of up to \$200 to low income households. All owner-occupiers of residences located within municipalities receive a provincial tax credit grants for the amount of their provincial property taxes. In rural areas, owner-occupiers receive a provincial tax credit of \$0.85 per \$100 of value and therefore pay \$0.65 per \$100 of value for provincial property taxes. There is a "municipal" or local service district tax rate applied to all property in a rural area. This rate is based on the level of service provided to that portion of the rural or local service district area. All property, whether located within an incorporated municipality or a local service district, is charged a "cost of assessment" fee at a rate of \$0.02 per \$100 of assessed value. This fee is the province's contribution to the funding of the assessment function in New Brunswick.

### **Quebec**

Quebec assessments are a local responsibility with a three-year roll (four years by exception in Montreal for the period 2007 to 2010 and Longueuil for 2006 to 2009). In 1988, a law was passed to allow changes in assessment to be spread equally and progressively over three years (four years in Montreal for the 2007 to 2010 roll). This measure is intended to alleviate the impact on taxpayers of sharp increases in assessment that occur with a new three-year roll.

Differential tax rates are applied to (1) non-residential immovables (real property), (2) industrial immovables, (3) immovables consisting of six or more dwellings, (4) serviced vacant land, (4.1) agricultural properties, and (5) all other immovables. Revenue Quebec grants property tax credits to low income homeowners and renters based on the amount of their property taxes and income. Municipalities may receive provincial consent for certain tax rebate programs designed to encourage specific real-estate-related new business development.

### **Ontario**

In 1998, the Government of Ontario transferred responsibility for property assessment from the Ministry of Finance to the Ontario Property Assessment Corporation. In 2001, the organization was renamed to the Municipal Property Assessment Corporation (MPAC).

Every municipality in Ontario is a member of MPAC, a non-share capital, not-for-profit corporation whose main responsibility is to provide its customers – property owners, tenants, municipalities, and government and business stakeholders – with consistent and accurate property assessments.

MPAC is accountable to the public through a 15-member Board of Directors. Eight members of the Board are municipal representatives; five members represent property taxpayers; and two members represent provincial interests. The Minister of Finance appoints all members of the Board.

MPAC administers a uniform, province-wide property assessment system based on current value assessment in accordance with the provisions of the *Assessment Act*. It provides municipalities with a range of services, including the preparation of annual assessment rolls used by municipalities to calculate property taxes.

Municipal enumerations are also conducted by MPAC in order to prepare a Preliminary List of Electors for each municipality and school board during an election year. Today, MPAC is responsible for the assessment of nearly 4.7 million properties in the province.

Differential tax rates are applied to residential, multi-residential, farm, commercial, industrial, and managed forest/conservation lands. Refundable property tax credits are administered through the income tax system to low income individuals.

Senior citizens who own property have grants available and municipalities can allow seniors to defer their taxes. Tax exemptions are available for a portion of a residential property where a senior or disabled person is living. This applies to people who would otherwise have to live in other premises where they can get special care.

The *Development Charges Act* permits municipalities and school boards to pass bylaws imposing charges on development that will increase the need for municipal services and school facilities. In lieu of charges, the developer and municipality can come to another agreement such as the provision of land for parks or schools.

## **Manitoba**

The provincial government is responsible for assessment in the province except for the City of Winnipeg. There are two assessing jurisdictions, but both are governed by the same legislation. Until 1990, improvements were assessed at two-thirds of fair market value; now, both land and improvements are assessed at fair market value. There are ten classes of property: residential (less than or equal to four units, greater than four units, or condominiums), farm, railway, pipeline, institutional, designated recreational property, designated higher education property, and all other properties. For general property tax rates, local governments do not differentiate between types of property. However, since 1990 the general tax rate is levied on a portion of fair market value where the portion varies between classes. This was implemented to prevent tax shifts between classes that would take place with assessment at fair market value. Designated recreational, farm, and residential property classes receive the lowest "portioned" assessments while institutional and other (business) are the highest. Designated higher education property are to receive a progressively lower portioned percentage, from 52% in 2002 to 0% in 2006.

Property tax credits are available to all homeowners. Additional relief is provided to senior citizens in the form of rebates for school taxes and shelter allowances for renters. Business taxes are levied on the basis of rental value. A licence fee may be imposed instead of a business tax for home-based businesses.

## Saskatchewan

In most instances, the assessment function is performed by an independent provincial agency; however, the cities of Regina, Saskatoon, Prince Albert, and a number of smaller urban centres have their own assessment staff or utilize assessment contractors. Properties are assessed at "market value" or "regulated property assessment value" in accordance with the assessment provisions of the *Cities Act*, the *Municipalities Act*, and the *Northern Municipalities Act*. Percentages of value, as prescribed by the province, are then applied by property class to determine assessed values. Local governments have the authority to set their own tax levies (mill rates) and can vary these rates by property class through the use of mill rate factors, minimum taxes, base taxes, or phased-in tax levels. Local governments can exempt property from taxation by bylaw to a maximum of five years.

There are no property-based business taxes in Saskatchewan.

## Alberta

Assessments in Alberta are completed in accordance with the *Alberta Municipal Government Act* (Part 9, Assessment of Property) and its associated regulations. Each municipality must annually prepare an assessment for each property in the municipality. An exception is linear property (such as pipeline, electrical generation and distribution, telecommunications devices), which is prepared annually by the Province.

The value standard for most properties is market value. The exceptions are properties that are subject to a regulated form of assessment, such as farmland, machinery and equipment, linear property, and railway.

Municipalities are responsible for setting tax rates to generate the tax revenue required to pay for the services that they provide. The local tax rates may be different for residential, multifamily residential, non-residential, and farm property. The province is responsible for establishing two uniform tax rates for school purposes; one rate for residential and farm land property and the other for non-residential property.

Municipalities may implement a business tax by passing a business tax bylaw. Business taxes are levied on businesses operating within a municipality. The assessment for purposes of business tax may be prepared using a number of different standards, including a percentage of the annual gross or net rental value, a percentage of the assessment prepared for property taxes, or by storage capacity or area occupied for business purposes.

## British Columbia

Assessment is performed by an independent Crown corporation, BC Assessment, and taxes are levied and collected by the province and local governments. BC's *Assessment Act* specifies nine classes of property: residential, utilities, supportive housing, major industry, light industry, business and other, managed forest land, recreational property/non-profit organization, and farm land.

Tax rates vary by class of property. School taxes are levied by the provincial government.

There are many tax exemptions in BC. Most are found in the taxation statutes, such as the *Community Charter* for municipalities, the *Local Government Act* for regional districts, the *Vancouver Charter* for the City of Vancouver, and the *Taxation (Rural Area) Act* for rural areas. Tax exemption provisions are also found in other statutes such as the *University Act*, the *Health Authorities Act*, the *Tourist Accommodation (Assessment Relief) Act*, and the *School Act*.

Eligible residential owner-occupiers receive homeowner grants to off-set property taxes. Senior citizens and handicapped persons receive an additional grant. Persons aged 55 or more can defer their property taxes until death or sale of their property. In areas of escalating property value and transition, where land value exceeds the value in residential use (e.g., Vancouver's West End or Kitsilano), eligible long-term property owners can apply, under the *Assessment Act*, to have their property valued at its current existing use instead of its higher potential use. This is intended to protect homeowners with fixed incomes.

### **Northwest Territories**

The Northwest Territories Government is responsible for assessment through one central office and one sub-office, with the exception of the City of Yellowknife, which completes its own assessment. Land is assessed at 100% of market value in the major municipal taxation communities, and 100% of development cost in the smaller communities and rural areas. Buildings are assessed at 66.6% of depreciated replacement cost. Annual assessment rolls are created each October 31<sup>st</sup>, incorporating physical change. The maximum time allowed between general reassessments is ten years.

The Territorial Government sets the mill rates for all property classes, except within the few major communities delegated taxing authority. Government properties, school properties, publicly held roads, cemeteries, forests, and collection and distribution systems for water or sewer are exempt from taxation. The local community taxing authorities may also exempt specific types of properties such as churches.

Senior citizens receive a 100% rebate on property taxation. Disabled persons receive a rebate up to 100% depending on personal circumstances.

### **Yukon Territory**

Property assessment is conducted by the Yukon Government. Land is valued at market value and improvements at the depreciated replacement cost new applicable in Whitehorse. Property used as a residence but zoned for another use must be assessed at its residential-use value. Different tax rates can be levied for the following different classes of property: one and two family residential, multi-family residential, commercial, industrial, agricultural, institutional, and recreational. For unincorporated areas, the Territorial Government sets different tax rates for residential, non-residential, and agricultural property. Some municipalities set the same tax rate for all types of property. Properties exempt from property taxation include: specific government property (such as municipal property in municipal taxing authorities), churches, roads, cemeteries, mines, and minerals.

An assessment roll is created annually and the values are reflective of July 31<sup>st</sup> of the year prior to the year of taxation. All properties are reassessed biannually. Property taxes can be paid in up to twelve instalments according to municipal by-law. A homeowner's grant is available to owner-occupiers of residential property subject to time requirements. Senior citizens receive a slightly larger grant than other homeowners.

### **Nunavut Territory**

The Government of Nunavut is responsible for property assessment for all taxation areas. The Territory is divided into Municipal Taxation Areas and the General Taxation Area. Currently, the City of Iqaluit is the only Municipal Taxation Area, while twenty four communities and the hinterland areas are located within the General Taxation Area. Land is assessed in tax-based municipalities at 100% of market value and in the non-tax-based communities at 100% of the average regional development cost. Buildings are assessed at 66.6% of depreciated replacement cost. Assessment rolls are created annually incorporating physical property change. General reassessments are completed within a maximum ten year period or sooner.

Municipal Taxation Areas are responsible for setting tax rates to generate the tax revenue required to pay for the services that they provide. The local tax rates may be different for residential, multifamily residential,

non-residential, or any other property class established through Municipal bylaw. The Government of Nunavut sets the tax rates and establishes the property classes for the General Taxation Area.

Government properties, school properties, publicly held roads, cemeteries, forests, and collection and distribution systems for water or sewer are exempt from taxation. The local community taxing authorities may also exempt specific types of properties such as churches. Senior citizens and disabled persons are normally eligible to receive a rebate on a portion or all of their property taxes.

## **Assessment Appeals**

An emerging trend with provincial governments is restructuring to become more efficient, and ultimately, less responsible for municipal affairs. This often includes reducing municipal government financing through provincial transfer payments, in order to allow reductions in provincial income tax. However, the public continues to demand maintained municipal service levels, so municipalities must find new means of generating operational revenues. Although municipalities are attempting to find new ways of generating revenues (everything from excess municipal land sales to dreaded traffic cameras), property taxes continue to be the primary source of operations revenue.

With this ever-growing dependency on property taxation, real property owners have become increasingly aware of property assessments and their importance in the calculation of property taxes, as well as the mechanisms for appealing these assessments if deemed inaccurate or unfair. This section introduces the system for property assessment appeals across Canada. It is written from the perspective of the property owner, or their agents/advisors, in highlighting areas of interest for property tax assessment appeals.

In this section, we will quickly touch on five topics that serve as the basis for appealing a property assessment:

- the notice of assessment,
- assessment review,
- lodging the property assessment appeal,
- working with the assessment agency, and
- the negotiation and resolution of the appeal.

Each of the five subjects is interdependent upon the others in properly reviewing the owner's assessment with the interest of improving their tax liability position.

### **The Notice of Assessment**

Following the closure of the assessment roll, the property owner is supplied with a statement from the assessment agency detailing the assessed value of the subject. This is commonly referred to as the "assessment notice". Assessment notices vary, but typically list the civic address, the folio or roll number, the property classification, and the assessed value of the property including a land/building breakdown for improved properties (in some provinces).

In addition, the assessment notice provides information on any legislated exemptions resulting in a taxable value. It is this net value, rather than the assessed value, that is applied to the appropriate tax rate in the calculation of the subject's property tax liability. Assessment notices are typically mailed to the owner shortly following the roll closure. However, if required, copies of the assessment notice can typically be requested from the assessment agency by telephone or facsimile by authorized parties.

## Assessment Review

Most regions of Canada tax real property on an *ad valorem* basis, most often assessed with a market approach to value. Market value, in its simplest terms, may be defined as the probable price that a property would sell for at market as of the status date. With these conditions in mind, the assessment notice should alert the responsible party as to any obvious issues related to value. However, in order to appropriately review the market value of a property, the owner or agent should attempt to obtain the appraiser's field notes detailing the approach to value used to arrive at the final value.

For instance, in British Columbia owners or agents may request a Property Value Summary following the provision of a letter from the authorized signatory, whom is responsible for the subject property. These field notes often demonstrate the appraisal approach applied, income, cost, or direct comparison, and detail important variables such as leasable areas, rental rates, rates of depreciation, capitalization rates, etc.

When reviewing the assessed value of a property, it is important to keep two things in mind: the goal of the assessment and the assessor's point of view. The first is a test of how well the assessor has done his or her job, and the second could be viewed as a test of how well the owner or agent has performed his or hers.

Firstly, when creating an assessment the assessor is responsible for fairness and equity. They must ensure that similar properties are both classified and valued on a level playing field. When comparing apples with apples, the end result should reflect similar property tax liabilities.

Secondly, it is important to keep in mind the assessor's access to information used in arriving at an assessed value. Under the Canadian systems of mass appraisal, assessors are responsible for recognizing trends in different real estate markets and sub-markets. Following this analysis, they are responsible for applying reasonable rates of change to reflect depreciation or appreciation in values over time. However, as there are very few bodies to thoroughly analyze several thousand properties on an individual basis, it becomes the responsibility of owners and agents to raise site-specific issues. Property assessment appeals provide a forum for addressing these issues.

## Lodging the Property Assessment Appeal

Following the review of the assessor's valuation, it is the owner/agent's responsibility to review this valuation from all angles to establish whether or not there are grounds for an appeal.

This requires several tests including:

- Comparing contract rents within the subject vs. economic rents from the valuation.
- Taking an inventory of number of units and leasable areas vs. data applied by the assessor.
- Reviewing rates of capitalization from market sales vs. those used in the assessment.
- Addressing site specific issues that affect value including deferred maintenance, costs to correct site issues, and so on.
- Reviewing recent sales of similar properties and comparing values on a per unit and per square foot basis.
- Reviewing assessment-to-sales ratios (ASRs) of similar properties to determine whether the subject is being assessed equitably with its neighbours.

During this and other analyses, it is crucial for the owner/agent to remember that the goal of his or her review is to ensure that the property taxes payable are fair, meaning the subject property's assessment is accurate and equitable.



Appraisal is an inexact science and a value estimate is one person's opinion based on the data available and their assumptions and analysis. The only static, factual value measure is at the point of sale where the vendor and the purchaser exchange real property and considerations. Otherwise, value opinions can vary depending on different internal and external variables. Thus, in a property assessment appeal the owner/agent must review the assessor's value conclusion against their own estimate of value, to determine if the difference is sufficient to warrant an appeal.

Most property assessment appeals see the appellant owner (or their agent) arguing for a value lower than that found by the assessor. These arguments must be supported by evidence. Before proceeding, the owner/agent will want to review the strength of the arguments and, in particular, the evidence in support, to evaluate the probability of success. Only if the probability of success is sufficiently high would the owner/agent undertake the time and expense of pursuing an appeal.

For most regions of Canada, property assessment appeals may be lodged by acquiring a notice of appeal from the local assessment agency. These notices of appeal are typically available via fax or through the assessment agency's website. They must be filled out in their entirety with accurate information and submitted to the assessment agency on or before the deadline for appeal. It is a good idea for the owner/agent to follow up with the assessment agency following the delivery of these appeals as accidents happen resulting in invalid appeals.

### **Working with the Assessment Agency**

Following the lodging of the appeal, the owner or agent should initiate a dialogue with the assessment agency. This entails contacting the assessment office, determining which appraiser has been assigned to the appeal, and speaking with that individual regarding the reason for appeal.

When making the first contact during an appeal, the owner/agent typically speaks with the assessor on a very high-level basis. This usually includes providing reasons for appeal, such as value or equity, and concludes with the promise of the provision of a detailed statement of position, supportive evidence, and a suggestion of value to help the assessment appraiser understand how far apart his or her opinion of value is from the appellant's.

It is important for the owner/agent to keep in mind that the best manner to achieve results is through working with the assessment agency and not against it. Real property valuation is an objective process that is performed by naturally subjective human beings. The best route to success in property assessment appeals is a "win-win" attitude. You will be assembling and presenting provocative information to the assessment appraiser, so effectiveness depends on a combination of diplomacy and wilfulness. You must clearly and reasonably outline your position and then allow that individual to review and respond to the information with his or her comments and questions. Keep in mind that the people on the other side of the table are also human beings and have their own motivations – e.g., the assessment appraiser is going to need something to "hang his or her hat on" prior to presenting a recommendation to the assessor for his or her approval, so if you can find a solution that works for both parties, that is ideal.



## **Negotiation and Resolution of the Appeal**

A property assessment appeal involves two parties that are each defending their opinion of value. By identifying specific issues that affect value and discussing each of the issues separately, both parties are able to narrow their important points of disagreement. Proper negotiation often results in the owner/agent and the assessment appraiser compromising by accepting the validity of some points in exchange for the removal of other issues. For instance, the assessment appraiser may accept that the rate of capitalization should be adjusted in his or her valuation as long as the owner's concerns regarding rental rates are taken off the table. This often requires time and research, which consume valuable resources for both parties.

The owner/agent must constantly be aware of the cost/benefit nature of a property tax appeal. Many recommendations to lower the assessed value of a property may fall short of expectations, however their acceptance can often maximize net return as the marginal cost of continuing the appeal may be greater than the marginal return. Moreover, the pursuit of appeals that end in frivolity often upset the assessment agency resulting in non-cooperative relationships in future dealings. This means knowing when to "cut bait" through the withdrawal of an appeal.

## **Conclusion: Assessment Appeals**

In this section, we have touched on five topics that are the basis of successfully appealing a property assessment. These include: the notice of assessment, assessment review, lodging the property assessment appeal, working with the assessment agency, and the negotiation and resolution of the appeal.

Much of the success in property assessment appeals depends on building positive relationships based on professionalism, honesty, and reasonability. Similar to poker, if the competition knows that you don't bluff they are more likely to fold when you raise the ante. Although the owner/agent will need strong appraisal knowledge, those individuals who possess strong public relations skills, who are good negotiators, and who are generally capable of establishing trust from others will often encounter the most success over time.

## **Summary**

Property tax is one of the main operating expense items for real property ownership, so it is important for owners and real estate professionals to understand the assessment function. Property managers may handle the property tax assessment review function for owners or may choose to contract this out to tax agents. In either case, the property manager must have an in-depth, working understanding of property tax assessment law and administration in their local area.

This document outlined the history and theory underlying real property assessment in order to highlight the foundations of the modern system. We reviewed the basic assessment details for each province, in terms of what is assessed and on what basis. Finally, we outlined the process for assessment appeals, along with suggestions for how to successfully manage the appeal process. Readers should view this document as a starting point for their own research into the specifics of the legislation and practices in their specific jurisdiction.