

1993 RURAL TAX REPORT

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1993 Rural Tax Report:

Summary of Findings

A. BACKGROUND

The issue of rural area taxation was formally put on the UBCM agenda in 1990, further to the recommendations of the Financing Local Government Study. A Working Group was formed to study the issue and previously reported to the 1991 and 1992 Conventions. The Working Group hopes to make this its final report.

Each year's Working Group was comprised of one representative from each of the five Area Associations, and was chaired by the UBCM Electoral Area Representative, a member of the UBCM Executive. For 1993, the members of the Working Group are:

Chairperson Hans Cunningham, Central Kootenay RD	Chair, UBCM
Director Jim Gurney, Sunshine Coast RD	AVIM
Chairperson Ernie Willis, Okanagan-Similkameen RD	OMMA
Director Darlyne Brecknock, Cariboo RD	NCMA
Director Roy Millar, Easy Kootenay RD	AKBM
Director Brian Appleby, Dewdney-Alouette RD	LMMA

B. OVERVIEW: WHERE WE ARE TODAY

a. The Rural Area Tax

The rural area property tax is levied by the provincial Surveyor of Taxes on properties outside of incorporated municipalities, according to the provisions of the *Taxation (Rural Area) Act*. The tax rates are set annually in the Spring by Order in Council for each of the nine property classes and are uniform across the province. The proceeds of the levy are taken into general revenues by the province, and are said to contribute generally to the cost of services that the province provides to the rural areas, namely policing, road maintenance and snow removal. If these areas were part of incorporated municipalities, these services would be financed (wholly or in large part) and/or provided directly by the municipalities. Services other than policing, road maintenance, and snow removal are provided to the unincorporated areas by their respective regional districts on a specified area basis.

b. Rural Tax Rates

An historical source of controversy involving the rural tax was the perception that rural residents weren't paying their fair share of taxes. This notion led to a gradual

increasing of rates by the province since 1981, with a few downward adjustments made for increasing assessment values in recent years. Table 1 provides an historical perspective on the general purpose rural tax rates since 1981:

TABLE 1

		GENERAL RURAL TAX RATES, 1981-1993												
		<i>(per \$1,000 of assessed value)</i>												
Property Class		1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
01	Residential	1.00	1.20	1.20	1.30	1.30	1.40	1.40	1.70	2.30	2.30	1.75	1.80	1.45
02	Utilities				4.60	4.60	4.60	4.60	4.60	4.60	4.60	4.00	4.30	4.30
03	Unmanaged Forest				4.00	4.00	4.00	4.00	4.00	4.60	4.60	4.50	4.70	4.70
04	Machinery & Equipment				0.00	0.00	0.00							
05	Industrial				4.40	4.40	4.40	4.40						
04	Major Industry								4.40	4.60	4.60	4.50	4.70	4.70
05	Light Industry								4.40	4.60	4.60	4.00	4.20	4.20
06	Business/Other				3.20	3.20	3.20	3.20	3.20	4.60	4.60	4.00	4.20	4.20
07	Managed Forest				8.00	8.00	8.00	8.00	0.50	0.50	0.50	0.50	0.50	0.50
08	Recreational/Non-Profit				1.30	1.30	1.40	1.40	1.70	2.30	2.30	2.00	2.10	2.10
09	Farm				0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50

Notwithstanding the rate increases, there remain those who believe that the rural rates are still too low relative to municipal rates, thereby encouraging urban fringe area residents to oppose incorporation or annexation to a municipality. Others believe that rural residents are being subsidized by those who live in municipalities. On the other hand, some rural residents contend that because their regional districts do not receive revenue sharing grants or other benefits from the resources taken from their areas, and that because service levels are generally lower than in municipalities, that they are paying an appropriate level of tax. It is in this context that UBCM has undertaken to review the myths and realities of the situation.

c. Assessment Shifts

In 1991 and again in 1993, property reassessments resulted in significant shifts in rural assessments in various areas of the province, as well as between property classes and within property classes in the same area. Typically, property values have increased primarily for waterfront and view properties, areas close to urban areas experiencing development, and for retirement destinations. Table 2 illustrates the shifts that took place between 1992 and the 1993 reassessment year for the province as a whole:

TABLE 2

GENERAL RURAL ASSESSMENTS, 1992-1993			
Property Class	<i>Rural Billing Values (\$ millions)</i>		
	1992	1993	%
			Change
01 Residential	14,613.2	19,49.3	33.4%
02 Utilities	2,775.4	2,849.7	2.7%
03 Unmanaged Forest	23.8	22.3	-6.1%
04 Major Industry	804.6	873.1	8.5%
05 Light Industry	785.4	872.7	11.1%
06 Business/Other	837.1	776.5	-7.2%
07 Managed Forest	479.3	558.1	16.4%
08 Recreational/Non-Profit	63.8	85.7	34.4%
09 Farm	748.7	742.8	-0.8%
<i>Non-Residential Sub-Total</i>	6,518.0	6,780.9	4.0%
TOTAL	21,131.3	26,280.3	24.4%

The largest assessment increase took place within the residential class, which resulted in the tax rate decrease for 1993. Although the assessment increased by 33% for the class, the rate decreased by only 19%. As shown in Table 1, the 1993 rates for the non-residential classes were set at the same level as for 1992, regardless of increases or decreases in the assessed values for those classes between the years.

Appendices A and B provide a detailed breakdown on a regional district basis of the changes in rural assessments and levies between the two years. This data shows dramatic differences between areas of the province -- variations caused by incorporations and boundary extensions (i.e., loss of rural folios); poor economic times (i.e., loss of value and folios); and the addition of new folios and assessed value because of growth and development. While there are several causes for changes between the years, the impact of the reassessment itself can not be minimized.

d. Differential Tax Rates

The kinds of assessment shifts experienced in 1991 and 1993 were the reason for the legislative amendments made in 1991 which enabled the provincial government to establish different rural tax rates for different areas of the province. The legislation was not introduced in time to be used in the 1991 tax year and has not been applied to date.

In 1991, UBCM recommended delaying any implementation until further study could be undertaken to determine whether such a scheme would have the desired effect, what appropriate methods might be to determine boundaries, and what

criteria would be applied to distinguish one area from another in the rate-setting exercise.

e. The Rural Levy and Tax Burden

Table 3 compares the 1992 and 1993 levels of assessment and the rural levy for each property class:

TABLE 3

GENERAL RURAL ASSESSMENT AND TAX LEVY, 1992-1993							
Property Class	1992		1993		1992-93 % Change in Assessment	1992-93 % Change in Levy	
	Assessment (\$ millions)	Levy (\$ millions)	Assessment (\$ millions)	Levy (\$ millions)			
01 Residential	14,613.2	26.30	19,499.3	28.27	33.4%	7.5%	
02 Utilities	2,775.4	11.93	2,849.7	12.25	2.7%	2.7%	
03 Unmanaged Forest	23.8	0.11	22.3	0.10	-6.1%	-6.1%	
04 Major Industry	804.6	3.78	873.1	4.10	8.5%	8.5%	
05 Light Industry	785.4	3.30	872.7	3.67	11.1%	11.1%	
06 Business/Other	837.1	3.52	776.5	3.26	-7.2%	-7.2%	
07 Managed Forest	479.3	0.24	558.1	0.28	16.4%	16.4%	
08 Recreational/Non-Profit	63.8	0.13	85.7	0.18	34.4%	34.4%	
09 Farm	748.7	0.37	742.8	0.37	-0.8%	-0.8%	
<i>Non-Residential Sub-Total</i>	6,518.0	23.39	6,780.9	24.22	4.0%	3.5%	
TOTAL	21,131.3	49.7	26,280.3	52.5	24.4%	5.6%	

Table 4 provides additional information about the tax trends by comparing the relative share of the levy paid by each class of property over the period 1991 to 1993. Although fluctuations took place from year to year in terms of the tax burden paid by each class, it is apparent that in 1993, the share borne by the residential class relative to the non-residential group is consistent with the three-year average. However, it is significant to note that within the non-residential classes, a shift has taken place off business/other and onto the industrial classes of property.

TABLE 4

RURAL TAX LEVY, 1991-1993								
Distribution By Property Class								
Property Class	1991		1992		1993		Average % 1991-1993	
	Levy (\$ millions)	% Distribution	Levy (\$ millions)	% Distribution	Levy (\$ millions)	% Distribution		
01 Residential	26.25	54.8	26.30	52.9	28.27	53.9	53.9	
02 Utilities	10.86	22.6	11.93	24.0	12.25	23.4	23.3	
03 Unmanaged Forest	0.13	0.3	0.11	0.2	0.10	0.2	0.2	
04 Major Industry	3.51	7.3	3.78	7.6	4.10	7.8	7.6	
05 Light Industry	3.02	6.3	3.30	6.6	3.67	7.0	6.6	
06 Business/Other	3.39	7.1	3.52	7.1	3.26	6.2	6.8	
07 Managed Forest	0.26	0.5	0.24	0.5	0.28	0.5	0.5	
08 Recreational/Non-Profit	0.15	0.3	0.13	0.3	0.18	0.3	0.3	
09 Farm	0.37	0.8	0.37	0.8	0.37	0.7	0.8	
<i>Non-Residential Sub-Total</i>	21.69	45.2	23.39	47.1	24.22	46.1	46.1	
TOTAL	47.94	100.0	49.69	100.0	52.49	100.0		

C. REVIEW OF THE ISSUES AND THE WORKING GROUP'S CONCLUSIONS

Over the last few years, UBCM's Working Group has identified and reviewed a number of issues associated with the rural tax. These included:

1. The need for a clearer statement of provincial policy objectives for the rural tax.
2. The need for improved provincial accounting policies and practices to track more precisely the costs and levels of services delivered by the province in rural areas.,
3. The need for greater provincial accountability to rural taxpayers for service delivery and policy change decisions.
4. Uncertainty over the use of a differential tax rate scheme.
5. How to mitigate the impacts of reassessments in rural areas.
6. How to best achieve a measure of equity in local taxation, service financing, and local service levels among all residential groupings in B.C., regardless of status.

The Working Group sums up the larger issues and provides its conclusions for consideration of the regional directors as follows:

a. Provincial Tax Policy

Purpose and Objectives of the Rural Tax

In 1991, the Working Group observed that there was only minimal information available about the provincial policy position regarding the purposes of the rural tax -- both apparent and inferred -- and the criteria used by the province in making decisions about the tax base and the rate structure.

This situation is the same today. The tax is an historic one, making up a relatively small portion (about 0.53% in 1993 or some \$58 million) of overall provincial tax revenues. The revenue generated is not earmarked for rural services, but rather goes into general revenues. As noted previously, it is said that these funds are used to assist in providing policing and road maintenance to rural areas. Unlike in the municipal sector, there is no relationship drawn between the service costs, the decisions on service levels, and the financing of the system. Other than to increase revenue generally and "what the market will bear", it is not clear what criteria are used to guide the annual rate-setting exercise.

Influences on Municipal Incorporations

A second level of provincial policy, albeit publicly unstated, appears to be the desire to create a "level playing field" so as not to influence, either positively or negatively, a rural community's decision to incorporate or join with a neighbouring municipality. This practice has relevance in relation to tax levels in so-called "urban fringe" areas but may be maintaining artificially high levels of taxation in remote, sparsely populated areas which are unlikely to contemplate municipal status for some time to come.

Because the implied policy has ramifications for the evolution of the municipal system of government in B.C., the Working Group again recommends that the provincial government clearly state the purpose and objectives of its policies for rural taxation and for establishing the annual rural levy to promote understanding of the philosophy behind the taxing decisions that are made and to enhance accountability to taxpayers.

b. Provincial Accountability

Service Costs, Service Levels, and Taxation

As indicated above, there is no connection between the level of service received by rural residents for policing and road maintenance, the cost to provide these services, and the taxes paid by residents. This is not to necessarily imply a criticism of the quality of the services themselves, but rather a concern that such a situation would not be acceptable in a municipality where there is considerable scrutiny of local budgets, taxes and services rendered.

Under direction of the Working Group, UBCM staff have attempted to quantify the costs to deliver police and road maintenance services to rural areas and to compare these results with the tax revenues generated by each area. While provincial staff made considerable effort to provide information

from their budgets as to the dollars spent to provide these services, they could not reliably say what the true costs were in the rural areas. All attempts to do so were approximations based on prorated population figures or best-guess estimates for service areas which only approximate regional district boundaries.

Reliable, accurate information simply does not exist, which reinforces the Working Group's recommendations of 1991 which advocated improved provincial accounting systems to track costs and service levels. Because there is no valid data on which to base a decision, the Working Group does not make a recommendation as to whether rural residents are paying a fair level of taxes for the services they receive.

Consultation on Local Policing

A second area of accountability noted in the 1991 Working Group report involved the need for greater involvement on the part of rural residents in the decision-making process for policing in rural areas. Fortunately, there has been progress made in this area. With the advent of the new RCMP contract, it is apparent that in some areas local RCMP detachments are making greater efforts to meet with local councils and regional district boards to discuss local needs and problems and to work out joint solutions. This consultation has greatly improved the relationships between councils/boards and local police. This involvement should be continued and enhanced so that rural areas have more input into policing priorities.

c. Assessment Shifts and Differential Tax Rates

It is clear that assessment shifts take place with each new valuation. The differential tax rate idea was proposed at a time when reassessments were taking place on a two-year cycle, which magnified the changes in value between reassessment years. Because the decision was made to implement an annual reassessment, it is anticipated that the impact of the assessment shifts will be moderated.

Furthermore, after considering what would be involved in actually implementing a differential tax rate system, the Working Group concluded that the costs would outweigh the benefits. The Group is prepared to evaluate the impact of the annual reassessment, before embarking on any further exploration of differential rates.

A secondary concern about a differential rate scheme comes back to the lack of good data about the current state of the rural tax and what it pays for. The concern exists that imposing another framework on an existing system which is questionable would forever entrench a taxation scheme which was created on unsound footing. The tax itself requires sorting out before a second layer is imposed.

d. Equitable Treatment

In 1991, the Working Group recommended a principle of taxation whereby all B.C. residents should share in the financing of services that are available to all residents. This principle underlies the long-standing UBCM policy, supported by the Financing Local Government report, that education should not derive any portion of its financing from the property tax or its rural equivalent. Rather, all funding should come from the income tax or other progressive, broad-based tax for which all B.C. residents are liable.

The Working Group believes that concerns about the rural tax are not confined to whether residents are paying enough towards road maintenance or police costs or whether tax rates are too high or too low. These are not issues that can be examined in isolation. A more realistic scenario would be to compare a consistent bundle of services and the taxes/charges paid by residents who receive these services in a municipality and a nearby rural area. Only then will there be some idea of who is paying more or less for the same services. The rural tax is not an accurate measure because it only relates to policing and road maintenance.

A true comparison would also account for the revenue sharing grants received by municipalities but not rural areas, which are derived in part from the resource revenues generated primarily in rural areas. Revenue sharing, in effect, benefits municipal services but does not benefit rural residents who are closest to where those natural resource revenues are generated.

Further distortions take place in assessing service costs and in determining equitable treatment because residents of incorporated communities under 5,000 population do not pay a property tax levy for the police services they receive. Other groups do not necessarily pay the full costs of services being delivered to them, including some services to Native Band lands and to residents of Crown lands in rural areas for which grants-in-lieu of taxes are not paid.

The rural tax is one among many forms of essentially local taxation and one of many forms of financing local services. Examination of the rural area tax should take place in a broader context of how these local services can and should be equitably financed.

D. RECOMMENDATIONS

The Working Group makes the following recommendations to the regional directors and the UBCM Executive:

1. Clear Statement of Provincial Tax Policy

The provincial government should clearly state the purpose and objectives of its policies for rural taxation and for establishing the annual rural levy. This

should be done to promote understanding of the philosophy behind the taxing decisions that are made and to enhance accountability to taxpayers.

2. Consultation on Local Policing

Consultation by local RCMP detachments with local councils and boards should be continued and enhanced. In addition, the provincial government should consider a mechanism for rural input to the Attorney General for province-wide policing programs.

3. Differential Tax Rates

Given the decision to reassess real property on an annual basis, there is no need to proceed at this time with a differential rate scheme for rural areas. The Working Group is prepared to evaluate the impact of this annual reassessment process before exploring the differential rate idea any further.

4. Equitable Financing of Services

The Working Group reaffirms its commitment to the principle of taxation whereby all B.C. residents should share in the financing of services that are available to all residents. The rural tax is only one among many forms of essentially local taxation and one of many forms of financing local services. Any further examination of the rural area tax should take place in a broader context of how these local services can and should be equitably financed.

5. Continued Involvement and Monitoring By UBCM

The Working Group believes that it has served its purpose in assisting to review issues of concern involving rural taxation and in making recommendations based on its deliberations. The Working Group recommends that the UBCM Executive authorize staff to continue monitor activities and emerging issues relevant to rural taxation and to continue to seek involvement in any provincial reviews of local tax policies and practices. The UBCM Executive should be advised that the Working Group members will be willing to serve in this capacity again should a matter arise which requires their input.

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