



**British Columbia
Assessment Authority**

Evolution of Real Property Taxation and the Assessment Function in British Columbia

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Table of Contents

Introduction	1
A Brief History	1
Before Confederation	1
After Confederation	1
The First Investigation into Property Taxation	2
The Boom Years	2
The Land Boom Ends	2
The Trend Toward Centralization	2
After World War II (1940's)	3
The Assessment Equalization Act	3
Real Estate Values Shift Tax Burden to Home Owners (1960's and 1970's)	4
The Concept of Capping	4
The British Columbia Assessment Authority is created	5
One Single Agency becomes Responsible for Assessments	5
Work begins on Establishing an Assessment System that is based on Actual Value	6
New Legislation gives Government power to define Classes of Property	6
British Columbians accept Actual Value concept	7
The Variable Tax Rate System (1980's)	7
The Impact of Taxation on Economic Development	7
Machinery and Equipment Removed from the Roll	8
Recent Developments and Recommendations	8
Addressing Tax Shifts Resulting from Large Assessment Changes	9



Introduction

In order to understand and appreciate the value of our current assessment system it is useful to look at its history.

The *Assessment Authority Act* and its companion *Assessment Act* were passed in 1974. They are the products of more than 100 years of development in real property assessment and taxation law in British Columbia. They are the descendants of the *Assessment Equalization Act*, the *Municipal Act*, the *School Act*, and the *Taxation Act*. Their immediate parentage was the 1974 report by the all-party Legislative Committee created to review assessment procedures. Other boards and royal commissions (over many years) also recognized that in order to have an equitable assessment system, it would be necessary to have standard assessment procedures and central administration.

A Brief History

Even before British Columbia became part of Canada in 1871, provision for assessments existed.

In 1860, British Columbia and Vancouver Island were separate colonies. In that year, a proclamation established New Westminster as the first city in the colony of British Columbia. An assessor was appointed to assess freehold and leasehold property at its actual value.

At the same time, the *Real Estate Act* was passed in the colony of Vancouver Island. Under the provisions of the *Real Estate Act*, an annual tax of one per cent on the market value of real estate was levied. Assessors were appointed but their duties required little appraisal expertise, since owners simply made a statement as to the real estate they held, giving its measurements and the actual market value of the land and improvements. This information was used by the assessor to compile an assessment roll.

Also in 1860, the *Road Act* required the assessor to make a list of people liable for labour or

able to supply animals and implements for road construction.

Assessors remained employees of the municipalities until the British Columbia Assessment Authority was created in 1974. Not only did the municipal councils appoint them — but the councils were, in fact, their Courts of Revision for many years. They were employed by the councils which had the power to “equalize” assessments if they were considered too high.

It is interesting to note that even today the tax paid by many homeowners still represents approximately one per cent of market value.

Before Confederation

In 1871, when British Columbia joined Confederation, the whole province, except Victoria and New Westminster, was unincorporated. An assessment and taxation system was required for these unorganized areas.

The first *Wild Land Tax Act* in 1872 levied a tax of four cents an acre on most unimproved land not used for pasture. Collectors were appointed to make a list of all land liable to the new tax, but it was the landowners themselves who submitted a Land Tax Assessment Paper stating the size and value of their land and the nature of improvements. The following year the *Wild Land Tax Act* was replaced by an act which imposed an annual tax of one per cent on the value per acre. This new act also required that an assessor be appointed.

After Confederation

In 1872, after Confederation, the first act governing municipalities also required the preparation of an assessment roll. After “diligent enquiry”, the assessor was required to set down “a full description of all taxable property within the municipality showing the extent and value of amount thereof.”

In 1876 this act was replaced by the first *Assessment Act* which imposed, with a number of exemptions, assessments and taxes on land (including buildings and machinery in the unor-



ganized areas and on certain personal property, and income) in all parts of British Columbia. An interesting aspect of this act was the provision for proportional assessment when a property was owned or occupied by more than one person.

In 1903-4 this legislation was expanded to provide for special taxation of real and personal property and income. This was an era when steamships and other watercraft were considered personal property and were taxed as such.

The First Investigation into Property Taxation

In 1905 the first commission to hold hearings into the operation of the *Assessment Act*, as revised in 1903, was appointed. The recommendations of this commission included that:

- i) assessors' duties be confined to assessment work;
- ii) assessors meet and compare the basis of their assessments; and
- iii) assessments be based on personal inspection of properties at frequent intervals. Provision was later made in the legislation to create a Board of Assessors whose duties included deciding on the best methods to obtain equitable assessments throughout the province.

The Boom Years

The years from 1900 to 1914 were prosperous in British Columbia. There was considerable immigration and growth.

Railroads were incorporated for construction all over the province and built.

Land speculation was rampant and values appreciated so much that properties alone provided an adequate tax base for municipalities. Land assessments increased ten-fold from 1904 to 1914 in Vancouver and six-fold in Victoria. The single tax theory was in favour.

To shift the tax burden from resident owners to absentee owners and land speculators, improvements were exempted in stages. Vancouver took the initiative in 1910 and Victoria, in 1911. In total, about 20 municipalities followed this policy. In theory, this action was taken to encourage people to improve property rather than speculate on it.

The Land Boom Ends

In 1914 the land boom ended just as assessments were catching up with the inflated real estate market. The end of the boom years had a devastating impact on municipal finances. Taxes fell into arrears. Thousands of parcels of unimproved land reverted to municipalities at tax sales. Many municipalities started taxing improvements again.

It is interesting to note that despite the crash in land prices, some of the inflated values were carried on assessment rolls for 30 years, right on through the Depression, as municipalities tried to avoid tax rate increases and to maintain their borrowing power. Of course, the quality of assessment rolls deteriorated. Inequities between properties and between municipalities became substantial.

In 1925, J.H. Putman and G.M. Weir, in their *Survey of the School System*, found significant differences in school tax rates. "The rate may be high but levied on land only or on an assessment that is below real value, or a rate may be comparatively low and levied on an inflated assessment."

The Trend Toward Centralization

Before 1933 many American states had established central commissions to oversee the work of assessment. Reports in Saskatchewan and Manitoba, as early as 1917, had urged similar bodies. British Columbia was slow to accept this concept.



Putman and Weir argued in 1925 that "a just assessment is a matter of honour but is also good business ... A just and equitable assessment must be the basis for any sound scheme of provincial finance". Putman and Weir urged the provincial government to take the responsibility for equalizing the assessment of real property.

In 1934, Judge A.M. Harper, in his report on municipal affairs, proposed a Bureau of Municipal Affairs to administer assessment laws and supervise assessors. This would create uniform procedures and equitable values.

In 1935, H.B. King, in his report on school finance in British Columbia, also emphasized the need for equalization of assessments on a scientific basis. He argued that lack of provincial government interest in municipal assessment and exemptions had contributed to the bankruptcy of some municipalities and had adversely affected government grants to schools.

In 1945, yet another report was published, this time by the Commission of Inquiry into Education Finance. In this report, Maxwell A. Cameron revealed the sorry state of assessments. He found school tax rates varied from 1.3 mills in some districts to over 50 mills in others, largely because of differ-

ing assessment levels and taxation bases. He also said, "Assessments at values fixed during the real estate boom which preceded World War I are not unknown."

Cameron's key recommendation was that an agency be set up to supervise and equalize assessments in the municipalities and in the unorganized areas of British Columbia.

In 1948 a commission, known as the British Columbia Royal Commission on School Taxation, was chaired by H. Alan McLean. It recommended that an authority be established to bring about a province-wide equalization of assessments.

After World War II (1940's)

Even before needed changes were made to assessment and taxation laws, provincial assessors were under some central control through the Surveyor of Taxes.

After World War II, specialists in forestry, agriculture and industrial valuation were hired to assist the assessors. A building cost manual was prepared around 1950, roll production moved to Victoria, and basic data processing was introduced. Improvements were realized in the larger B.C. jurisdictions.

However, most municipalities and provincial assessors still lacked enough trained staff. In some smaller municipalities the municipal clerk was also the assessor. And it was not uncommon for the assessor to hold other positions. For example, as late as the 1950's an appraiser appointed under the *Assessment Equalization Act* found a local assessor driving the municipal grader, one of his many duties!

Although improvements had been made, little was being done to ensure assessment uniformity. In 1948 assessed value varied from 30 per cent of market value to several times market value throughout the province.

During the late 1940's, a group of assessors formed the British Columbia Association of Assessors with the goal of improving assessment procedures and staff. The new group grew rapidly and held its first conference in Penticton in 1950.

The Assessment Equalization Act

Finally, in 1953, action was taken on the McLean recommendations with the passing of the *Assessment Equalization Act*. The act required that land and improvements be assessed at their "actual value". This term has been given the same meaning as "fair market value" by the Courts.

The act required the appointment of an Assessment Commissioner and staff. The Assessment Commissioner was given broad powers to equalize assessments within the province and to order a complete or partial reassessment in any municipality or rural area. If a reassessment was

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not satisfactory, the Commissioner could have his own staff carry out the reassessment and recover 80 per cent of the cost. However, the ability to exercise this power, except in the smaller jurisdictions, was frustrated by a chronic shortage of staff. Nevertheless, the quality of assessments gradually improved and a fair degree of equity was achieved throughout British Columbia.

The *Assessment Equalization Act* required that assessments be at actual value but, in practice, they were set at a lower level. The act was amended and percentage assessments, which started out as 60 per cent of 1953 actual values, were decreased to 50 per cent of actual value by 1961.

Few pieces of legislation have been amended as much as the sections of the *Assessment Equalization Act* that covered actual value and the level of assessment. Six major changes were introduced between 1959 and 1973. Most of the changes were contradictory to the whole idea of assessment equalization. The *Assessment Equalization Act*, drafted to establish an equitable assessment base, eventually brought about its own downfall.

Real Estate Values Shift Tax Burden to Home Owners (1960's and 1970's)

The Concept of Capping

In the late 1960's, the steadily increasing residential real estate values shifted the tax burden to the homeowner.

In 1966 the provincial government, concerned by dramatic increases in assessment, introduced capping (a ceiling was placed on annual assessment increases). Only if there was a physical change or new construction could assessment increases exceed the ceiling.

It was clear this capping process would

inevitably destroy the concept of equity. Obvious under-assessments could not be corrected and the permitted increase was not enough to respond to inconsistent shifts in market value even within a single taxing jurisdiction. A variety of other restrictions were introduced later and the situation became worse.

By 1972 the situation was a matter of concern for school districts and municipalities. There was confusion because the format of assessment notices varied among municipalities. It was difficult to compare assessments or determine whether an assessment was too high.

Two reports were prepared. One was by Dean P.H. White and Dr. S.W. Hamilton in 1972 on real property tax in British Columbia, for the B.C. School Trustees Association. The other, on municipal taxation, was written in 1973 by the Union of British Columbia Municipalities. Both reports recommended improvements to the assessment system.

A partial remedy was attempted in 1973. Limitations on assessment increases for all types of property, except land and improvements used for residential purposes or classified as farmland, were removed. Commercial, industrial and some other types of property could again be assessed at 50% of actual value.

In just 20 years, the vision of equity had been achieved to some extent — then dismantled. In particular, the volatility of the residential real estate market made it obvious that equity and restrictions on assessment increases could not co-exist and the problem created by the various restrictions caused still other basic flaws in the assessment function.

There were problems and inconsistencies. A branch of the provincial Ministry of Finance was responsible for assessments in the rural areas and in villages. All other municipalities — cities, towns and district municipalities — employed their own assessment staff.

While some of the larger municipalities could justify employing qualified appraisers to maintain uniform assessments, many smaller municipalities were not able to pay adequate salaries to attract qualified people. For example, in many cases where the assessor did double-duty as a



building inspector, almost invariably the individual was not a qualified appraiser and the assessment function was neglected. Consequently, the quality of assessments in the smaller municipalities was poor.

Dividing assessment responsibility between assessors employed by the municipalities and assessors employed by the provincial Ministry of Finance caused two other major problems.

First, assessment staff were inefficiently and ineffectively distributed among the various regions of the province. Second, it appeared that assessors were under the control of the taxing authority.

Before 1974, there were 140 independent real property tax assessment organizations. Assessed value levels ranged from 8 per cent to 20 per cent of market value for residential properties. Commercial/industrial assessments were at 50 per cent.

With the amalgamation of school districts, hospital jurisdictions and other taxing bodies, the province found that huge equity problems were created because uniform taxes were being levied against properties in different municipa-

lities, many with different levels of assessments. It was possible for the school or hospital taxes on two comparable houses located across the street from one another (but in different municipalities) to be vastly different because the municipalities were not using the same criteria to accurately assess value.

The British Columbia Assessment Authority is created

In 1974, the growing problems of real property assessment were recognized by government and an all-party legislative committee was appointed to study the situation.

For several years, municipal leaders had requested that the assessment function be placed in the hands of an independent body, free of provincial and municipal political influence. The Union of British Columbia Municipalities passed resolutions and, in early 1974, presented a report to the legislative committee recommending the establishment of an independent assessment authority.

After completing a comprehensive review, the legislative committee recommended "that legislation be introduced at the current session to create a province-wide assessment authority. This authority must be independent of taxing function (either municipal or provincial) and its control must be such as will result unmistakably in complete independence."

The recommendation was adopted by the Legislature and in July, 1974, the *Assessment Authority of British Columbia Act* was passed, establishing the British Columbia Assessment Authority.

One Single Agency becomes Responsible for Assessments

Establishing a single agency responsible for the assessment of all property in the province was seen as a major step forward.

The new Assessment Authority began work immediately and met its objective of producing the first assessment rolls and notices by December 31, 1974. Very soon, 27 area offices were established, most were staffed by the same people who had been employed in the municipal or provincial assessment functions.

To support its staff, the Authority developed extensive training programs to ensure employees produced high quality assessments. A large data processing system was set up and soon began to service all Authority offices in the province.

Today all taxpayers, whether their properties are in large or small municipalities, or

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whether located in a rural area, access the same expertise and service, and the same policy and procedures.

Also in July 1974 the *Assessment Act* was passed and the *Assessment Equalization Act*, with its restrictions on assessed value increases, was repealed. Before the establishment of the *Assessment Act*, legislation on assessment had been scattered among a number of different Acts, notably the *Assessment Equalization Act*, the *Taxation Act*, the *Municipal Act*, and the *Vancouver Charter*.

Responsibilities and jurisdictions were clarified. The new *Assessment Act* contained all assessment legislation. The other acts retained the legislation pertaining to taxation, but any section relating to assessment was repealed. A key provision of the *Assessment Act* was that property was to be appraised at actual value.

The *Assessment Act* required land and improvements to be assessed at actual value but putting this into effect was another matter. It proved to be a challenge because most residential properties had enjoyed restricted assessments for several years and were assessed at levels far below commercial and industrial properties. The shift in the tax burden to residential properties would have been very significant under the new system.

Therefore, in late November, 1974 the first amendment (*Bill 170, The Assessment Amendment Act, 1974*) to the *Assessment Act* was introduced. The effect of the amendment was to freeze assessments at the 1974 levels, except where there was a physical change, new construction, or a zoning change.

Work begins on Establishing an Assessment System that is based on Actual Value

In 1975 the provincial government appointed a Commission of Inquiry on Property Assessment and Taxation. The Commission was directed to study the implications of setting up an assessment system based on actual value, and all aspects of property taxation procedures. In 1976 the Commission presented its findings in the

McMath Report. The report made 75 recommendations with regard to assessment and taxation. Many of the recommendations would later be incorporated into appropriate legislation.

The assessment freeze remained in effect for the 1975, 1976 and 1977 rolls. A mixed blessing. On the one hand, it provided an opportunity for the newly established Assessment Authority to become organized and it enabled assessors to re-inventory and revalue properties which, in many jurisdictions, was long overdue. On the other hand, this three-year freeze during a period when market values were on the increase allowed the level of assessment to drop still lower and widespread inequities began to occur.

In many areas the various restrictions that began in 1967, coupled with the complete freeze on assessment increases in the three years preceding the 1978 assessment year, left residential assessments at an extremely low level. In at least one school district the average residential assessment was less than 12 per cent of actual value. The land component of the same property was at an even lower level. Commercial, industrial and some other classes of property were close to 50 per cent of actual value.

New Legislation gives Government power to define Classes of Property

To overcome equity and assessment problems, legislation was introduced which gave the government the power to define classes of property by type or use. This same legislation enabled the government to fix the percentage of actual value at which each class of property was to be assessed for the succeeding year (i.e., the level of the assessed value) against which a common tax rate would be applied. This process occurred annually.

The *Assessment Act* made it clear that the assessor's mandate was to determine actual value. For the first time, actual value appeared on the assessment rolls and notices right beside the assessed value. In the years when there had been ceilings on assessment increases, the assessed value had become an almost meaningless figure.



It was almost impossible to explain to taxpayers how the figure was derived. With these changes the public could more readily relate to the actual value figure. Assessed value was determined by applying simple mathematical calculations.

British Columbians accept Actual Value concept

The public immediately adopted actual value as a credible and significant valuation figure. Any appeals on value were conducted on an actual value basis, not on an assessed value basis.

The importance of being able to determine accurate and equitable valuations was obvious.

The public could now easily compare the value placed on their property against existing market evidence. They could easily compare the value of their property against the value of their neighbours' property. Understanding actual value was deemed to be a fair and equitable system for assessing property.

Further, to prevent undue shifts in the tax burden, assessed value levels were set for each property class. They reflected the provincial average for actual values in the previous year. Still the system re-

mained, to some degree, inflexible. For example, swings in the real estate market (i.e., assessed value levels which might be appropriate in one part of the province) did cause large tax shifts.

The Variable Tax Rate System (1980's)

In November, 1982 the Minister of Finance announced the government had given approval in principle to a variable tax rate system.

The variable tax rate system was designed to allow municipal councils to set different tax

rates for each of 8 classes of property. Tax rates were levied on actual value. This move (which had been advocated by the municipalities for some time) ended the system of applying a common rate against the assessed value of all classes of property.

In 1983, *Bill No. 7 and Bill No. 12, 1983, Property Tax Reform Acts (No. 1 and No. 2)* respectively, were enacted to introduce a variable tax rate system.

The first bill enabled municipalities to levy general purpose taxes on the actual value of land and improvements and to set a tax rate for each class of property. The second Act extended this system for school, hospital and other tax purposes. Under the new variable tax rate system, (which remains today) the entries on most assessment notices sent to property owners are simpler — with the same figure shown for actual value as for assessed value. The net taxable value differs only where there is an exemption from taxation.

Further legislative changes, as a result of Bills No. 7 and No. 12, affected the 1984 assessment rolls. A new \$10,000 exemption from taxation for industrial and commercial improvements, and an increase in the machinery and equipment exemption from \$1,500 to \$50,000 of taxable value, were introduced.

The Impact of Taxation on Economic Development

In the fall of 1984, the Minister of Finance, with support from ministry officials, conducted a review of the impact of taxation on economic development.

The government was seeking a consensus on measures for simplifying taxation and encouraging economic growth, economic diversity and job creation. Consultative meetings were held in various locations around the province to seek input from those interested in or affected by taxation.

As a result of this consultation, the provincial government in the next two years introduced a limited number of reforms to the provincial tax system. Major changes in assessment



legislation also resulted. Of major significance was the *Assessment Amendment Act, 1984*, which became law on May 11. It contained several changes which impacted both the assessment cycle and assessment processes.

In terms of the assessment cycle, the long established principle of reassessing all properties annually was abandoned in favour of a biennial or two-year cycle. Biennial reassessment involves preparing a new assessment roll in every even-numbered year for use for taxation purposes in the following two years. In odd-numbered years, a revised assessment roll was

to be prepared, but only to record those properties where there had been physical or zoning changes, or where there had been a change in classification. Typical entries would record changes in ownership information and changes in value due to new construction or demolition.

In terms of the assessment process, the new act substituted September 30 for December 31 as the date by which the assessment roll was to be completed and the valuation date was changed from December 31 to the preceding July 1 (Previously assessment rolls

had to be completed by December 31 in each year, and assessments had to reflect actual value as of that same date).

The need to set a valuation date, in advance of the date when the roll had to be completed, had long been recognized. It is not practical to prepare assessment rolls and to value all properties in the province as of the same date.

Machinery and Equipment Removed from the Roll

Legislative amendments in 1985 had little impact on the Assessment Authority.

The most significant change affected assessments on machinery and equipment for business and commercial undertakings. They were eliminated from future assessment rolls in a two-step process.

For the 1986 Revised Assessment Roll, existing machinery continued to be assessed or adjusted (if it had been demolished or removed since the previous year's roll), but no additions or new machinery could be assessed.

For the 1987 roll, which was produced in 1986, all machinery (Class 4, machinery and equipment) was removed from the assessment roll.

The introduction of Bill No. 67 in 1987, amending the *Assessment Amendment Act*, created a separate property class for major industrial properties. This change served to ensure that all major industrial properties would be assessed according to a prescribed cost approach (minus straight line depreciation). This method further returned their valuation to a cost-based system firmly rooted in the actual dollars being spent by industry to create the wealth required to conduct their industrial activity.

Recent Developments and Recommendations

More recently, with the production of the 1989/90 assessment rolls it became obvious to government that large non-uniform shifts in market values could cause significant shifts in tax liability for taxpayers. Such shifts are more pronounced because of the current biennial roll cycle which requires assessments to reflect market value changes over a two year period.

Clearly an annual roll would tend to reduce the amount of shift in assessment and a concomitant shift in tax liability. It is trite to say, but there is enormous political sensitivity to these large tax shifts.

For this reason, in 1989, a report on Financing Local Government jointly sponsored by UBCM and the Ministry of Municipal Affairs, Recreation & Culture recommended re-establishing the annual assessment roll in order to provide more gradual changes in assessment.

Clearly an annual roll would tend to reduce the amount of shift in assessment and a concomitant shift in tax liability. It is trite to say, but there is enormous political sensitivity to these large shifts in tax.



In addition, the report looked at the use of capping, averaging, and types of phase-in mechanisms to smooth the transitions in value — a result of volatile real estate markets, particularly in Greater Vancouver and to a lesser extent, Victoria and the Okanagan. Although the report made no recommendation in this area, the UBCM subsequently adopted a resolution recommending that government reintroduce the annual assessment roll coupled with assessments averaged over three years.

A subsequent study by the Assessment Authority indicates that assessment averaging, while not particularly effective, would be required infrequently and only in a highly volatile market. Still it would add a significant element of confusion to the current system.

Nonetheless, it is important to note that the current Premier is on the record as supporting the UBCM resolution for an annual roll and three year assessment averaging.

Addressing Tax Shifts resulting from Large Assessment Changes

The provincial government introduced special legislation in 1989 and 1990 in response to the concerns expressed by local governments and taxpayers about large tax shifts resulting from large assessment changes.

Bill 17, 1989; the *Residential Property Tax Increase Limitation Act, 1989*, gave municipal councils the right, by resolution, to “cap” assessed values of residential land only. Capping would be set at a fixed percentage (above the average increase) for all residential land in the municipality.

In 1990, the *Assessment and Property Tax Reform Act* amended the *Municipal Act* and the *Vancouver Charter* to allow municipalities to:

- apply a flat tax to residential class parcels or subsets of residential class parcels.
- apply a different tax rate to residential land and improvements.

While the 1989 legislation affected assessments and the 1990 legislation affected the way taxes were levied, both were attempts to ameliorate the effects of shifts in tax liability resulting from rapidly shifting assessed values.

For similar reasons, in 1990, using a section on emergency powers in the *Vancouver Charter*, the government passed an Order in Council allowing the City of Vancouver to cap taxes on commercial property and in 1991 did the same for both residential and commercial properties. The City of Vancouver is again requesting a cap on taxes for 1992.

