Assessment related information for municipal administrators and property assessors in Alberta

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Advisory Aspects

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Introduction of the Modernized Municipal Government Act

On May 31st, 2016 the Government introduced Bill 21: The Modernized Municipal Government Act.

This Bill has been many years in the making and is the result of lots of hard work by stakeholders and Ministry staff, including the staff of Assessment Services Branch.

I want to take this opportunity to thank stakeholders across the province for the contributions and input they have provided.

ASB staff will be travelling around the province as part of a summer tour to answer questions and gather feedback regarding the proposed changes under Bill 21 for assessment and taxation related matters.

For information on the summer tour and to get involved please visit the Government of Alberta's MGA review website at:

http://mgareview.alberta.ca/get-involved/

There is much more work to be done over the coming months relating to Bill 21 and associated regulations so stay posted for additional consultation opportunities specifically on the regulations.

The staff at ASB and I look forward to continuing to talk with stakeholders through 2016 on the new Bill and are available to answer questions on an on-going basis.

Respectfully,

Steve White
Executive Director

Bill 21: Modernized Municipal Government Act—Assessment and Taxation Matters

On May 31st, 2016 the Government of Alberta introduced Bill 21: Modernized Municipal Government Act. With 710 sections, the *Municipal Government Act* is Alberta's second-largest piece of legislation and touches the daily lives of all Albertans by defining how their municipalities are governed, funded and developed. Bill 21 proposes a number of amendments relating specifically to assessment and taxation matters in Alberta. Below is a high-level summary of what has been proposed in the Bill and the impact on the current assessment and property tax system in Alberta.

Access to Assessment Information

Assessors will be able to request and use any information required to fulfill their duties and responsibilities, which includes mass appraisal, defending assessments, and reporting to the Minister. Property owners will be able to request information sufficient to determine how their assessment was prepared, and the assessor will provide information in their possession at the time of the request. A best practices guide will be developed to help assessors and property owners understand what information they could expect to provide and receive. Lastly, Assessment Review Boards (ARBs) will be able to go in camera and seal evidence to protect information deemed to be confidential.

Composition of ARBs

Municipal councillors will be prohibited from forming the majority of any municipal appeal board hearing panel, including ARBs . Two councillors may sit on the same ARB panel if they are from different municipalities. This change is intended to reduce concerns about real or perceived institutionalized bias in municipal appeal decisions.

Decisions of Assessment Review Boards (ARB)

ARB and Municipal Government Board (MGB) assessment complaint decisions may be appealed at Court of Queen's Bench by judicial review only. Eliminating the leave to appeal and appeal stages is intended to reduce redundancies in the appeal process, making things easier for property owners, municipalities and the courts.

Corrections to Assessments Under Complaint

Assessors in Alberta may make corrections to an assessment that is under complaint without ARB or MGB ratification or withdrawal of the complaint. Allowing assessors to make changes to an assessment that is under complaint will improve the overall efficiency of the system, since assessors will be able to correct errors in assessments without requiring board ratification.

Modernized Municipal Government Act—Assessment and Taxation Matters Cont'd

Linking Residential and Non-Residential Tax Rates

Bill 21 establishes a maximum ratio of 5:1 between the highest non-residential and the lowest residential municipal property tax rates, and include grandfathering provisions for ratios that exceed the legislated maximum. The intent of this newly established link is to improve accountability and ensure all taxpayers are paying their fair share. However, municipalities which are currently outside the legislated link will be grandfathered so that municipal councils will continue to have flexibility in setting tax rates.

Allowing the Splitting of Non-Residential Tax Rates

Under the proposed changes, the non-residential property class may be split into subclasses as defined in regulation, and taxed at different rates (subject to established links). This proposed change will allow municipalities to set tax rates that better reflect local circumstances, encourage sustainable growth and maintain a strong local business base.

Centralized Industrial Assessment

The assessment of all Designated Industrial Property (DIP) will be centralized within Municipal Affairs and all appeals related to DIPs will be heard by the MGB. This newly proposed section under Bill 21 will ensure consistency in the assessments of DIPs by having the assessments prepared by one authority. Provincial costs associated with centralized industrial assessments will be recouped through a cost-recovery mechanism, to be paid for by owners of these properties.

Only property that is listed in the definition of designated industrial property is included. DIP properties are primarily those that are regulated by the AER, AUC, or NEB, or properties that cannot be repurposed without major structural changes (e.g. oil sands plant). Many properties currently classified as industrial property will be excluded. For example, most warehouses and the machinery & equipment in the warehouse are not included in the definition of designated industrial property. M&E on a site not classified as DIP will continue to be assessed by the municipal assessor using the Minister's Guidelines, and the land and buildings will continue to be assessed at market value. Municipal Affairs anticipates that the province will assume responsibility for designated industrial property assessments in 2018.

Assessment of Farm Buildings

All farm buildings – whether in urban or rural municipalities - will not be assessed or charged municipal or education property taxes. This proposed change to the legislation is intended to improve consistency in the assessment of farm buildings and improvements across the province.

Modernized Municipal Government Act—Assessment and Taxation Matters Cont'd

Farm Land Intended for Development

Farm land will be assessed at market value once the land is no longer used for farming operations. The definition of farming operations will be updated through regulation to include the triggers that indicate when land is no longer farmed. Under the proposed changes, the definition of farming operations will be clarified so that farm land where the topsoil has been removed may no longer be assessed as farm land.

Taxation of Brownfields

Municipalities will be allowed to establish a tax exemption framework for brownfield properties that cancels, defers or reduces the municipal portion of the property taxes owing on a brownfield property for multiple years. Although municipalities using this tool will forgo some revenue over a short period of time, the long term benefits of removing the contamination and a return to productive use is expected to lead to higher future property taxes which will benefit municipalities in the longer term. This policy will not affect the assessments of Brownfield properties; if a municipality chooses to use the tax exemption framework for brownfields, it would only affect taxes.

Municipal Ombudsman

Under Bill 21 the mandate of the Alberta Ombudsman will be expanded to include municipalities and respond to complaints about municipalities. Consequential amendments will be made to the Ombudsman Act in the future. The Ombudsman will provide a respected, arms-length resource that gives Albertans another avenue to turn to when they believe their local government is not meeting an acceptable standard of procedural fairness. This change will create another avenue for Albertans to hold municipal councils and administrations accountable for their decisions and actions, and will hopefully improve confidence that concerns raised will receive an objective review.

To access a copy of Bill 21 please visit the Legislative Assembly of Alberta website at:
http://www.assembly.ab.ca/ISYS/LADDAR_files/docs/bills/bill/legislature_29/session_2/20160308_bill-021.pdf

If you have questions or would like more information on what's changing please visit the Government of Alberta MGA review website at: http://mgareview.alberta.ca/whats-changing/

Or

Contact an Advisor at Assessment Services Branch at (780)-422-1377 (toll free from anywhere in Alberta by first dialing 310-0000) or by email through email at lgsmail@gov.ab.ca.

Inclusion of Goods and Services Tax (GST) in the Assessment of Properties in Alberta

The Goods and Service Tax (GST) in Canada is a tax that applies to the sale of most goods and services in Canada. These goods and services include real property (newly constructed) and intangible personal property.

According to the Canada Revenue Agency, almost everyone has to pay the GST/HST on purchases of taxable supplies of property and services (other than zero-rated supplies such as certain agriculture produce and medications etc.).

Some specific goods and services are GST exempt, such as the re-sale of used real estate, health and dental services, mortgages, educational services etc. The construction and sale of new real estate however is not exempt from GST and therefore GST is payable on all of the direct and indirect costs associated with the construction of new real estate, mentioned in the previous paragraph, as well as the first time sale of this real estate.

According to the Appraisal Institute of Canada in The Appraisal of Real Estate: 3rd Canadian addition, published by the Real Estate Division of the University of British Columbia, Goods and Services Taxes (GST), or Harmonized Sales Taxes (HST) where applicable, should be included in the estimates of replacement or reproduction cost new.

This methodology is consistent with standard assessment and appraisal theory in Canada as well as the United States through the Appraisal Institute (US) and the International Association of Assessing Officers (IAAO).

Over the past number of years multiple assessment complaints have been filed in the Province of Alberta on the grounds that GST has been included in the calculation of property assessments and complainants have argued it should not be. Arguments by complainants have varied but generally have the same premises:

1. Including GST in the calculation of property assessments results in a property tax payment that represents a tax upon a tax.
2. GST can be claimed back by an individual constructing an improvement for their own use and occupation through Input Tax Credits (ITCs) and/or annual Capital Cost Allowances (CCA) once construction is complete and therefore it is a flow through cost.
3. GST is not an actual cost of construction nor is it considered property or structure according to the *Municipal Government Act* (MGA) and associated regulations in Alberta.
4. By including GST in the estimate of replacement or reproduction cost new of any improvement under the cost approach to value an assessment jurisdiction is over estimating the market value of any property.

To date the decisions of Assessment Review Boards (ARBs) across the province have varied with some decisions concluding GST should not be included, while others concluding GST should be included.

Irrespective of recent ARB decisions in Alberta, there are several key principles of the cost approach to value, founded from standard assessment and appraisal theory as well as property tax policies in Alberta that form the strongest arguments for the inclusion of GST in the estimate of replacement cost or reproduction cost new estimates for the purposes of determining market value.

<u>RCN estimates must represent total construction costs (not net costs)</u>

The foundation of assessment and appraisal theory regarding the cost approach to value is that any estimate of replacement or reproduction cost new for an improvement must include all direct and indirect costs. After which the total RCN is depreciated based on the condition and quality

Inclusion of Goods and Services Tax (GST) in Property Assessments Cont'd

of the improvements and considering all forms of obsolescence.

From an accounting perspective flow through costs or tax rebates such as ITCs or CCA adjustments may perhaps offset the end cost to an individual constructing an improvement, but not from a valuation perspective.

GST is a cost and should be included in the total construction cost of the property.

The sales prices of new properties include GST (not net GST)

According to the Canada Revenue Agency, a person constructing improvements to real property is required to collect the GST/HST from the purchaser as an agent for Her Majesty in right of Canada. However, this only applies when the transaction involves newly constructed real property and only on the first transaction. GST is not payable on the sale of used or older real property in most instances.

Therefore any sale of newly constructed property is subject to GST which is typically paid by the seller.

Under Federal tax policies in Canada, newly constructed homes sold under $450,000 (including GST) may be eligible for a GST rebate under the New Housing Rebate program up to a maximum of 36% of the GST payable on the purchase.

This rebate is on a sliding scale beginning with a maximum rebate based on a sales price below $300,000 and is reduced proportionally until the property sale reaches $449,000. The sale of any newly constructed home above $450,000 is not eligible for any rebate.

Under this program the sales price of the home still includes GST, but the purchaser can apply for a rebate after the closing of the sale or they may sign over the rebate to the builder in exchange for a reduced sales price. However, the GST is still included in the base sales price.

Therefore, including GST in the assessment of properties in Alberta by way of the cost approach or the cost depreciated market value approach will more accurately depict market sales prices.

The cost approach to value is not, nor should it be, confined by the net impact of property taxes

In Alberta the foundation of the property tax system is based on the principles of *ad valorem* tax or 'according to value'. The basis of *ad valorem* tax systems is that individuals pay tax based on the value of properties they own. Although property taxes are determined in most jurisdictions based on the assessed sum of all properties in the jurisdiction and the annual budget requirements of the jurisdiction, the guiding principle of *ad valorem* tax systems is that any estimate of value remains independent from, and unbiased by, the net impact the value will have on the amount of tax any individual property owner will pay.

Recommendation

Including the GST in the calculation of the market value using the cost approach follows typical market conditions as well as standard assessment and valuation theory. Furthermore, the argument for the inclusion of GST in the assessment of properties for property tax purposes in Alberta is supported by the fact that purchasers of all new real property in Canada are subject to GST at the time of purchase.

In summary, Assessment Services Branch of Alberta Municipal Affairs recommends that GST should be included in all estimates of market value, by way of the cost approach and the cost depreciated market value approach, for the purposes of property assessment in Alberta.

Any questions or concerns can be directed to the Assessment and Property Tax Policy Unit of ASB at (780)-422-1377 or through email: assessmentservicesbranch@gov.ab.ca

An Overview of the Linear Property Assessment 2016 Annual Report

In the province of Alberta, the linear property assessment is a regulated valuation process. Linear properties include pipelines (includes gas distribution systems), wells, electric power systems, electric power generation (subset of electric power systems), telecommunications systems and cable distribution undertakings (subset of telecommunications systems).

In 2016, the linear property assessment is $76.3 billion and is expected to generate an estimated $822 million in municipal tax revenue and $238 million in education property tax for the province of Alberta. The linear property assessment total decreased by 2.53% from the 2015 tax year's closing balance of $78.3 billion to $76.3 billion. The change in the linear assessment is comprised of a 3.97% increase to inventory and a 6.50% decrease due to reductions in construction costs and depreciation. There were no policy changes which impacted the 2016 assessed value of linear properties.

For complete details regarding Linear Property Assessment please visit the Municipal Affairs website and obtain a copy of the *Linear Property Assessment 2016 Annual Report*: http://www.municipalaffairs.alberta.ca/mc_property_assessment_and_taxation_reports

If you have any questions or would like to schedule a presentation from the Linear Property Assessment Unit in your municipality please call (780)422-1377, or email ma.alpasmail@gov.ab.ca

Questions about an aspect of the

***Municipal Government Act* and/or regulations? Maybe a valuation or**

exemption issue?

Contact an advisor at Assessment

Services Branch, we are here to assist

780-422-1377

Alberta Government