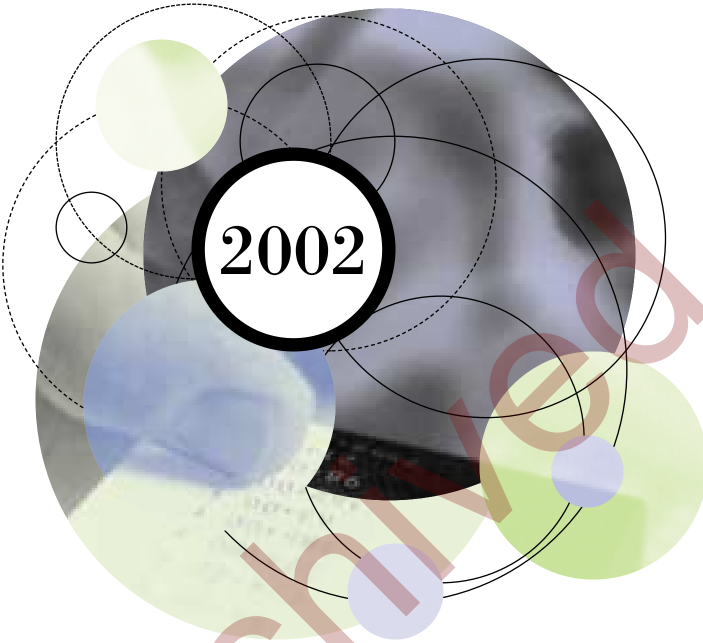


Guide to

property assessment and taxation in Alberta

Alberta
MUNICIPAL AFFAIRS

table of contents

Alberta's Municipal Government Act (January 1, 2002 consolidation) and the Assessment Complaints and Appeals Regulation (AR 238/2000) are the source for the information in this guide. If there are differences between the information in the act and regulations and what is presented in this guide, the legislation takes precedence.

preface:

The *Guide to Property Assessment and Taxation in Alberta* was written to provide general information about the province's property assessment and taxation system. This guide will be helpful for anyone who wants or needs to have an understanding of how the property assessment and taxation system works.

The guide is structured to reflect the organization and process of the property assessment system. It begins with the foundations of the system — the legislation and history — and follows the process through to show how property taxes are determined and levied based on a property's assessment.

It is important to remember that the contents of this guide are an interpretation of legislation. The legislation will always prevail in the event of a challenge.

Alberta Municipal Affairs welcomes feedback regarding this guide. Comments can be directed to the Assessment Services Branch at 780.422.1377 or lgsmail@gov.ab.ca. This publication is available online at www.gov.ab.ca/ma/as.

chapter 1:

Overview of Alberta's property assessment and taxation system

This chapter highlights the nature, rationale, and foundations of the property assessment and taxation system in Alberta. Topics include:

- The main features of the system
- The relationship between assessment and taxation
- A brief history of property assessment and taxation

What is property assessment?

Property assessment is the process of assigning a dollar value to a property for taxation purposes. In Alberta property is taxed based on the *ad valorem* principle. *Ad valorem* means "according to value." This means that the amount of tax paid is based on the value of the property.

Property taxes are a primary source of revenue for municipalities. Property taxes are used to finance local programs and services, such as:

- Garbage collection
- Water and sewer services
- Parks and leisure facilities
- Police and fire protection
- Hospitals
- Seniors' lodges
- Education

The municipality is responsible for ensuring that each property owner pays his or her fair share of taxes. Property assessment is the method used by municipalities to distribute the tax burden among property owners in a municipality.

Relationship between property assessment value and property taxes

Too often, the terms "assessment" and "taxation" are considered to be interchangeable. However, assessment and taxation are very different. Although one impacts the other, each is a distinct and independent process.

"Assessment" is the process of placing a dollar value on a property for taxation purposes. This value is used to calculate the amount of taxes that will be charged to the owner of the property. "Taxation" is the process of applying a tax rate to a property's assessed value to determine the taxes payable by the owner of that property.

History of assessment and taxation in Canada

Various forms of property tax have been used throughout history. During the settlement of North America, some attempts were made in the British colonies to tax property based on its value. These taxes were often levied at fixed rates on specific items, such as livestock and personal possessions. These taxes, however, usually favoured the politically powerful and unfairly burdened the politically weak.

TABLE 1.1 HISTORY OF ASSESSMENT AND TAXATION IN NORTH AMERICA AND CANADA

Historical Period	Assessment and Taxation Event
Settlement of North America	• Taxes levied at fixed rates on specific items • Taxation system biased towards the politically powerful
American Revolution	• Rapid tax increases • Inequities highlighted • United Empire Loyalists bring tax system concepts to Canada
Early 20th Century	• Systematic approaches to value developed

Canada

The early system of taxation was a uniform tax that was based on the value of property owned. This system was brought into Canada by the United Empire Loyalists when they fled from the American Revolution. The Loyalists were accustomed to a system of self-rule in which local bodies had the authority to levy taxes. Governments adopted local taxation as a means to raise the money that was needed to provide services.

By the nineteenth century, all property was taxable. This included homes, land, boats, and household goods. This system was difficult to administer, as many types of taxable property could be moved on assessment day.

Alberta

Property assessment for taxation purposes in Alberta can be roughly divided into two time periods — pre-1995 and post-1994.

TABLE 1.2 History of Assessment and Taxation in Alberta

1800s	• Municipal Ordinance of the Northwest Territories brings property tax principles to Western Canada
Up to 1995	• Fair actual value assessment system used • All land except farm land at market value • Regulated manuals were used to assess buildings, structures, and farm land • Up to eight years between reassessments
1995	• Municipal Government Act proclaims a market value assessment system • Municipalities must prepare assessments annually • Two assessment standards — regulated and market value

Pre-1995

The early property assessment system in Alberta evolved in line with legislation used by other Canadian provinces. Ontario's Municipal Act of 1880 allowed taxation of "real property"—land and buildings. The Municipal Ordinance of the Northwest Territories (1882) was an adaptation of Ontario's Municipal Act. It brought the general property taxation principles and procedures to what became Canada's western provinces.

A variety of assessment methods have been used by local governments to generate tax revenue. The assessment system most widely used up until 1995 was referred to as fair actual value. The value of buildings, structures, and farm land was determined on the basis of formulas and rates. These formulas and rates were set out in regulated manuals prepared by the provincial government. All land, except farm land, was assessed at its market value.

Assessment review committees in the early 1990s recommended that Alberta's property assessment system should be changed from the fair actual value system to a market-value-based system. Also, some court decisions during this time indicated that assessments should reflect current market values.

Market value is the price a property might reasonably be expected to sell for if sold by a willing buyer after appropriate time and exposure in an open market. The rationale for recommending the change to a market-value-based system considered many important factors:

- Market-value-based assessments allow property owners to readily understand their assessments and make comparisons with similar properties.
- Market value is considered by both professional organizations and municipal governments to be the most fair and equitable way to assess property.
- Market value assessment systems are used in the vast majority of local government administrations throughout North America.

Post-1994 — The Municipal Government Act

In 1995, the Municipal Government Act came into force. The Municipal Government Act consolidated a number of acts governing municipalities, including the Municipal Taxation Act and other assessment-related legislation. In addition, the act set out the foundations for a market-value-based assessment system for most property in Alberta.

The Municipal Government Act gives direction to municipalities to prepare assessments every year. Previously, municipalities were required to prepare new assessments every eight years. Under the eight-year assessment cycle, property values often changed dramatically. This system led to major assessment and property tax shifts in the reassessment year.

The Municipal Government Act sets out two types of valuation standards — the market-value-based standard and the regulated standard.

The market-value based standard is considered the most fair and equitable means of assessing property. It is fair because all property is assessed on the same basis; it is equitable because properties with similar market value in a municipality will pay a similar amount of property tax.

Some properties are unique, one (or a few) of a kind, or do not normally sell in the marketplace. The value of these types of property is determined by their ability to perform, function, or produce a commodity, or they may be unique or special-purpose. The standard used to assess these properties is called the regulated standard.

The regulated standard is based on valuation rates and formulas that are used to calculate assessed values. Rates are prescribed under the legislation in the Municipal Government Act and set out in the Minister's Guidelines. (The Minister's Guidelines are discussed further in Chapter 3). The types of properties assessed using regulated rates are: farm property; linear property (this will be explained in Chapter 2); machinery and equipment; and railway property.

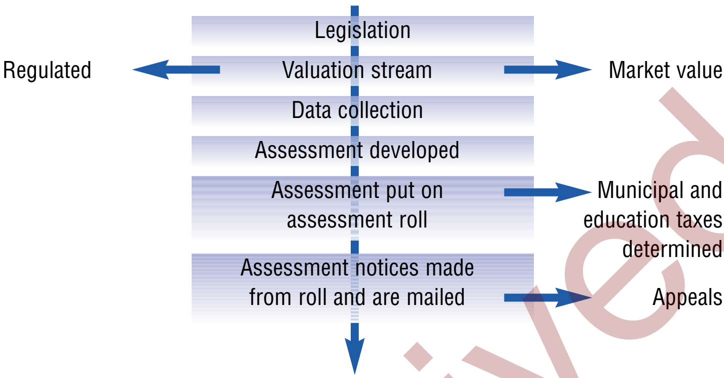
Market value and regulated assessment are explained in further detail in later chapters.

The Alberta model of property assessment and taxation

The following chart illustrates the processes, connections, and components of the property assessment and taxation process in Alberta. Each step in the chart is explained in later chapters.

The assessment and taxation system begins with government policies that are outlined in the Municipal Government Act. All activities that are associated with property assessment and taxation are governed by this legislation.

FIGURE 1.1 The Municipal Government Act and Assessment and Taxation



The assessor interprets these rules to determine which valuation method must be used for each property. This process is explained in Chapter 2.

An assessor collects a variety of information to calculate a property assessment. The process of arriving at a property value is explained in Chapter 3.

Once the assessment is complete, the assessed value is entered on the assessment roll, which lists all of the property assessments in a municipality. Assessment notices are created from the information on the assessment roll. A notice is mailed to every property owner in a municipality. These steps are detailed in Chapter 3. If property owners do not agree with the assessed value of their property as listed on their assessment notice, they can appeal their assessment.

The steps involved in appealing a property assessment are also outlined in Chapter 3.

The assessment roll is used to calculate the amount of municipal and education property tax payable on each property. These are explained in Chapter 4.

chapter 2:

Property assessment valuation standards in Alberta

This chapter describes the two valuation standards that are used to value property for assessment and property taxation purposes in Alberta — the market value standard and the regulated standard. Topics include:

- Definition of market value
- How market value is determined
- Properties that are assessed with regulated manuals
- How regulated values are determined

Market-value-based standard

What is market value?

The market-value-based standard is used to determine the assessed values for the majority of properties in Alberta. Market value is the price a property might reasonably be expected to sell for if sold by a knowledgeable, willing seller to a willing buyer after appropriate time and exposure in an open market.

Key characteristics of market value are:

- It is the most probable price, not the highest, lowest, or average price.
- It is expressed in terms of a dollar value.
- It assumes a transaction between unrelated parties in the open market.
- It assumes a willing buyer and a willing seller, with no advantage being taken by either party.
- It recognizes the present use and potential use of the property.

Sometimes the market-value-based assessment of a property is confused with the sale price of an individual property. It is important to note that the market-value-based assessment is not the sale price. The sale price is an historical fact. The sale price is the amount the purchaser agrees to pay and the seller agrees to accept under the circumstances surrounding the sale.

A sale price might not equal market value for any of the following reasons:

- The sale might not have occurred in the assessment year or the date on which the property was valued.
- The purchaser might not have been aware that similar properties were selling for more or less than the price for which the property was purchased.
- The buyer or seller may have been unduly motivated (for example, transferred to another city, needed to sell property as part of a divorce settlement, etc.).
- The sale may have involved a trade, partial interest, special financing, personal property, or assumed leases.

Assessors gather information on ranges of sale prices in the marketplace. This statistical data is used as part of the process for calculating market-value-based assessments.

Sale price information helps to develop market-value-based assessments. Assessments are calculated by analyzing the range of sale prices of groups of properties at a specific point in time. Several sales of similar properties are compared to determine typical market values of specific types of properties that have similar characteristics.

There are three standardized approaches to determine the market-value-based assessment of a property. The three approaches for estimating market-value-based assessment are: the sales comparison approach; the cost approach; and the

TABLE 2.1 THE THREE APPROACHES TO VALUE

	How Market Value is Determined	Property Type
Sales approach	Compare sales prices of similar properties to the property being assessed	• Residential • Commercial
Cost approach	Market value of land + cost of improvements – depreciation = value of property	• Unique and special-use
Income approach	Analyze future benefits (i.e. income-producing potential)	• Income-generating (i.e. rental properties)

income approach. One or more of these approaches are used to arrive at a property's assessed value using the market-value-based standard. The following sections outline each approach, and the types of properties each is best suited to.

Sales comparison approach

This approach is based on the theory that the market value of a property is directly related to the sale price of similar properties. When property types are relatively similar, the sales comparison approach provides a dependable indication of market value. This approach is best suited to residential properties and other types of property that sell often on the open market.

Cost approach

The cost approach is used when the property being valued is new or nearly new, in situations where there are no comparable sales available, or when the improvements are unique or specialized (for example, courthouses, fertilizer blending plants, or large recreational facilities).

The cost approach is based on the assumption that a purchaser would not pay any more to purchase a property than it would cost to buy the land and then rebuild the exact improvements. An improvement is a building or structure that is attached to the land and is expected to remain so (for example, a building or a pipeline).

Values for properties that are assessed using the cost approach are determined by using the following formula:

Market value of land + cost of improvements (i.e. buildings)
– depreciation = total value of property

The assessor first determines the market value for the land. The cost of constructing the improvements is then added to the land value. Once the costs of the improvements have been determined, the assessor makes a deduction for depreciation. Depreciation is a loss in value due to any reason. This includes normal wear and tear, a change in needs or style of a building, or even a loss in value because of its location. Depreciation must be subtracted from the cost of the improvements to accurately value the improvements in their current condition.

Income approach

The theory behind this approach is that income-producing properties are bought and sold based on their income-earning potential. This approach is used to assess the value of rental properties, such as apartment buildings or rental office buildings.

Regulated assessment standard

Some types of properties are difficult to assess using a market-value-based assessment standard. These properties are difficult to value because:

- They seldom trade in the marketplace. When they do trade, the sale price usually includes non-assessable items that are difficult to separate from the sale price.
- They cross municipalities and municipal boundaries.
- They are of a unique nature.

Therefore, it is difficult to arrive at a dollar value based on any of the three previously mentioned approaches to value.

The value of these properties is determined by what it is used for, its activity, or its production capability. To arrive at assessed values for these types of properties, rates are assigned for each of the various components that make up each type of property. Alberta Municipal Affairs develops rates for these types of properties, which are referred to as "regulated properties."

There are four types of regulated property:

1. Farm land
2. Machinery and equipment
3. Linear property
4. Railway property

Farm land

Farm land is assessed on the basis of its productive value; that is, the ability of the land to produce income from the growing of crops and/or the raising of livestock. The productive value of farm land is determined using a process that sets a value for the best soils, and then makes adjustments for less-than-optimum conditions such as stones, the presence of sloughs, or topography not conducive to farming practices.

The value of farm property takes four factors into consideration:

1. *Agricultural land* — This is land that is used for farming operations.
2. *Residences* — The residence is assessed at its market value. The assessment of each residence located on farm land may be fully or partially exempt from property tax, depending on the total value of the land in a farm unit.
3. *Farm buildings* — A farm building is any improvement, other than a residence, that is used for farming operations. Farm buildings are exempt from assessment in rural municipalities. In urban municipalities, farm buildings are assessed and then exempted from property tax to a level of 50 percent for both municipal and provincial education tax.
4. *Residential site* — The residential site is three acres of land surrounding the residence. These three acres are assessed using a market-value-based assessment, as if the three-acre site was a separate parcel of land.

Linear property

Generally, linear property is property that extends itself in lines. These properties have distribution lines or other facilities that travel across municipalities and municipal boundaries. Linear property includes:

- Oil and gas wells
- Pipelines to transport petroleum products
- Electric power systems (generation, transmission, and distribution facilities)
- Telecommunication systems (including cellular telephone systems)
- Cable television systems

The rates for linear property are determined by the province, documented in the Minister's Guidelines, and applied by the Assessment Services Branch of Alberta Municipal Affairs.

Manufacturing and processing machinery and equipment

Machinery and equipment includes such things as underground tanks, separators, fuel gas scrubbers, compressors, chemical injectors, and metering and analysis equipment. These items would be found in refineries, chemical plants, pulp and paper plants, and oil sands plants. The local assessor assesses some components of machinery and equipment property while the Assessment Services Branch of Alberta Municipal Affairs assesses other components.

Railway property

The assessed value of railway property is based on a fixed dollar amount per kilometre, based on the annual tonnage transported on the railway right-of-way. Each rail company must annually report the type and length of line in each municipality to the local assessor. Rates are determined by the province, documented in the Minister's Guidelines, and applied by local assessors.

chapter 3:

Preparing property assessments

This chapter describes the property assessment process in Alberta. The main topics covered include:

- What property is assessed
- Who prepares assessments in Alberta
- How assessments are prepared
- Inspections
- The property owner's right to information
- The assessment roll
- Assessment notices
- What property owners can do if they do not agree with their assessment

What is assessed?

Not all property is assessable for property tax purposes. The Municipal Government Act outlines what property is assessable for taxation. The act defines property as:

- A parcel of land
- An improvement
- A parcel of land and the improvements to it

It does not include things like furniture, jewellery, automobiles, or other personal possessions. If a property cannot be assessed, this means it cannot be taxed. Properties that are not assessed or taxed include:

- Publicly owned infrastructure or equivalent privately owned facilities
- Minerals
- Property in Indian reserves
- Property in Metis settlements
- Growing crops

Some properties are assessable, but not taxable. Properties that are assessed but then exempted from taxation include:

- Farm residences and improvements (in whole or in part)
- Environmental, municipal, and school reserves
- Government properties such as hospitals, libraries, and schools
- Colleges and universities
- Privately operated schools
- Churches, cemeteries, and seniors' residences
- Property owned by some non-profit organizations such as benevolent societies, boys' and girls' clubs, etc.
- Hostels

Who prepares assessments in Alberta?

Assessments for all types of property are prepared by professional, certified assessors. Assessors receive training in a variety of areas including property valuation techniques, legislation, and quality assurance.

Assessors who are employed by the province prepare the assessments for linear property, while assessors who are employed by municipalities prepare assessments for all other types of property.

Under provincial legislation, a municipality must list at least one designated assessor. A designated assessor is responsible for completing a number of tasks laid out by provincial legislation and regulations.

To be the designated assessor for a municipality an assessor must hold at least one of the following professional designations:

- Accredited Municipal Assessor of Alberta (AMAA) as granted by the Alberta Assessors' Association
- Certified Assessment Evaluator (CAE) as granted by the International Association of Assessing Officers
- Accredited Appraiser Canadian Institute (AACI) as granted by the Appraisal Institute of Canada

An assessor who does not hold one of the above designations could be designated the municipality's assessor if, in the opinion of the Minister of Municipal Affairs, he or she has a combination of education and professional experience that is equivalent to any or all of the three designations.

An assessor is hired by a municipality in one of two ways — as an employee of the municipality, or as a contractor. Contracting often occurs in smaller municipalities where the duties associated with calculating assessments are not a full-time activity. Regardless of the assessor's employment situation, all assessors, whether they are contractors or municipal employees, must follow the same procedures and legislation.

How assessments are prepared

Mass appraisal

An appraisal is an estimate of value. Assessors value properties in Alberta using a method called mass appraisal. Mass appraisal is the process of valuing a group of properties as of a given date, using common data, mathematical models, and statistical tests. Mass appraisal techniques allow assessors to accurately value a large number of properties in a short period of time.

Data collection

Before an assessment can be prepared, property data must be collected. The more accurate and complete the property records are, the more accurate the assessed value will be. The more accurate the assessed values, the more equitable the entire assessment system is.

Detailed information about each property is gathered by making on-site visits or by corresponding with the owner of the property. Correspondence with a property owner usually occurs when the assessor is requesting information about commercial, industrial, or rental properties (such as apartment buildings or hotels). Information collected by the assessor in the assessment process is also available from other sources including Alberta Land Titles, the real estate Multiple Listing Service, and financial institutions.

Valuation and condition dates

In Alberta there are two key legislated dates by which certain assessment processes must be complete — the valuation date and condition date.

The valuation date is a fixed point in time at which assessment values are based. The valuation date ensures that all properties in a municipality are valued as of the same date. The valuation date set by the Municipal Government Act is July 1. For example, for the 2002 tax year, the valuation date for property assessment is July 1, 2001. This means that a 2002 property assessment must reflect the value of the property as of July 1, 2001.

The second legislated date in the valuation process is the condition date. The condition date is the date on which the condition of the property is recorded for property assessment purposes. Under Alberta legislation, the condition date for property to be assessed is December 31. For example, for the 2002 tax year, the condition date would be December 31, 2001. This means that although the value of the property reflects the market conditions as of July 1, it must also reflect the condition of the property as of December 31.

For example, if a garage has been added to the property during 2001, the property assessment for 2002 would be based on its market value as of July 1, 2001, including the garage. The 2001 property assessment would not have included the garage because the garage was not built by the condition date for the 2001 property assessment (December 31, 2000).

Inspections

Sometimes, an assessor may decide that he or she needs to inspect a property in order for a fair and accurate assessment to be determined. Professional assessment organizations recommend that every property undergoes a re-inspection at least once every five years.

An inspection ensures that all characteristics of the property that affect the assessment are considered when the assessor determines the property's value. All newly constructed properties require an inspection. Likewise, existing properties need to be reviewed from time-to-time to ensure the information that is used to create the property's assessment remains current.

Under the Municipal Government Act, an assessor may enter and inspect property and request any document to be produced to assist in preparing the assessment. The legislation states:

- The assessor is required to give reasonable notice to the owner or occupier before an inspection.
- The inspection must be at a reasonable time.

- The sole purpose of the inspection or requesting a document must be for the preparation of an assessment of the property.
- The assessor must be able to produce identification.

During the on-site inspection, the assessor will first explain the purpose of the visit, and request permission to carry out the inspection. The assessor will observe, record, and verify relevant physical details of the property. This may include both an interior and exterior inspection of the property.

Property owners' rights to assessment information

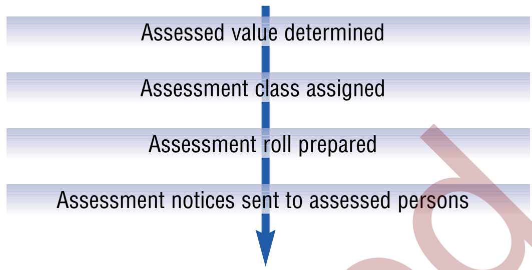
Just as assessors abide by rules when collecting information for assessment purposes, taxpayers have a legislated right to know how their assessment is determined.

A municipality is required to provide sufficient information showing how the assessment of a property was prepared. "Sufficient information" means that the municipality must provide enough information to explain to an assessed person how the assessment was prepared. In addition, the assessed person has the right to see the assessment roll, which lists the assessed values for all properties in the municipality.

If requested to do so, a municipality must provide an assessed person with a summary of the assessment of any assessed property in the municipality, as long as the municipality is sure that confidentiality will not be breached. A municipality may charge a fee for providing this information.

The assessed person is also entitled to see the assessment record, a listing of property characteristics for his or her own property, and the assessment roll (this will be explained in the next section). The ability of an assessed person to see his or her assessment, check the facts, and compare his or her

FIGURE 3.1 BEYOND ASSESSED VALUE



assessment with other property assessments makes the assessment system more accessible, fair, and understandable.

After the assessed values of all properties in a municipality have been determined, there are a number of assessment documents that must be prepared. The most important of these documents is the municipality's assessment roll.

Assessment classes

After the assessed value of a property has been determined, the property is assigned to an assessment class. This is an important part of the assessment and taxation process. The assessment class determines the tax rate that will be applied to each property, as assessment classes have different tax rates.

The assessor for the municipality is responsible for assigning the assessment classes to property. Property is classified according to its actual use. The classes are set out in the Municipal Government Act. They are:

Class 1 — residential
Class 2 — non-residential
Class 3 — farm land
Class 4 — machinery and equipment

The assessment roll

An assessment roll is a listing of all assessable properties in a municipality and their assessed values. The Municipal Government Act requires each municipality to annually produce an assessment roll. The roll must be completed by February 28 each year.

The assessment roll must contain the following information for each assessed property:

- Assessed person (owner of the property), including name and mailing address
- Location
- Property type assessed (land, improvements, or land and improvements)
- Description of the improvement being assessed (pipeline, structure, etc.)
- Assessed value
- Assessment class
- School support declaration
- Taxable status (total or partial exemption from taxation)

School support declarations

When a property is sold, property owners are required to file a School Support Notice with the municipality. Canada's Constitution establishes Alberta's public and separate school systems. Therefore, school boards and tax-collecting authorities are required to ask property owners to declare which school board they support. Where one or more individuals own a property, they must direct their education tax dollars to the public, Roman Catholic, or Protestant school district in proportion with their ownership (50 percent for two owners, 33 percent for three owners, 25 percent for four owners, etc.). Where there is no separate school district, 100 percent of education property tax dollars are directed to the public school boards.

Property owners may change their school support declaration at any time. A school support notice filed by a property owner becomes effective in the year following the year in which it is filed.

Assessment notices

Assessment notices are created from the information on the assessment roll. The assessment notice is the document that municipalities send to property owners to tell them about the assessment of their property.

An assessment notice must include the following information:

- All of the same information as appears on the assessment roll
- The mailing date
- The date by which a complaint must be filed if a property owner is challenging an assessment
- The name and address of the designated officer with whom a complaint must be filed

Each year every municipality is required to send an assessment notice to every assessed person listed on the assessment roll. Each municipality must publish a notification in one issue of a local newspaper to announce that the assessment notices have been mailed to property owners within the municipality.

Sometimes an error is found on an assessment notice. The assessed person can contact the assessor to correct this information. Corrections can only be made to current-year assessment notices. This means that a person cannot change an error, omission, or wrong description on an assessment notice from a previous year.

Each property in a municipality receives an assessment notice whether it is exempt from assessment and/or property taxation or not. One of the important features of Alberta's assessment system is that assessed persons have the ability to appeal their assessments. If an assessed party believes that his or her property should receive an exemption from assessment, property taxation, or both, then the property's exemption status can be challenged through an assessment appeal.

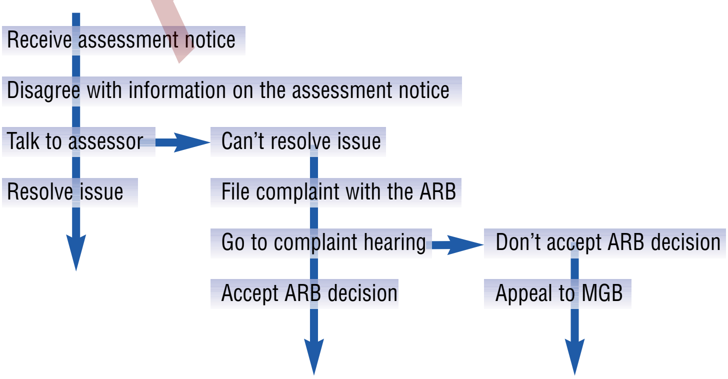
Assessment complaint and appeal system

To ensure that property owners have a voice in the property assessment system, the Municipal Government Act has set out a complaint and appeal process for property owners who have concerns about their assessment.

The process involves two levels of formal appeal. The first is at the municipal level with an assessment review board (ARB), and the second is at the provincial level, with the Municipal Government Board (MGB).

The first step an assessed person should take if he or she believes his or her property assessment is unfair or inaccurate is

FIGURE 3.2 THE APPEAL SYSTEM



to contact the assessor. The assessor can be reached by calling the municipality's office at the number listed on the assessment notice. The assessor may be able to inspect the property to determine if an error was made. The assessment can be corrected if necessary. If the assessor agrees that the original notice is not accurate, a new notice can be issued.

If the assessor and the property owner cannot come to an agreement, the property owner can begin the formal complaint process by filing a complaint with the local assessment review board. The deadline for filing a complaint with the assessment review board will be noted on the assessment notice. Complaints filed after the indicated date will not be accepted.

Assessment review board

The assessment review board is the first level of formal complaint for all types of property assessments except linear property. Linear property complaints proceed directly to the Municipal Government Board. (The Municipal Government Board is explained later in the chapter.) The assessment review board is a local board. Its members are appointed by the municipality. Each municipality has its own assessment review board. These boards are local because assessment and taxation are municipal responsibilities, not provincial responsibilities.

The assessment review board is a quasi-judicial administrative board. This means it is created, empowered, and staffed according to the legislation laid out in the Municipal Government Act. The board is like a court as it can order something to be done. In this case, it can order a change to the assessment on a property.

Who can make a complaint

Any assessed person, taxpayer, or person acting on behalf of an assessed person or taxpayer may file an assessment complaint.

If ownership of a property changes while a complaint is in progress, the new owner of the property or business then becomes the assessed person or taxpayer in relation to that property or business. This person may become involved in any proceeding before the board.

Complainants must demonstrate that the assessment of their property is not a fair estimate of the price the property would sell for on the market. Preparing a case for the complaint hearing will take some time and research. Property owners who are considering filing a complaint should consult Alberta Municipal Affairs' guide, "Preparing for your Assessment Complaint or Appeal Hearing." As well, complainants should contact their assessment review board office for details about the process that must be followed and the information that has to be provided.

What a complaint can be about

A complaint may be filed about any of the following items listed on the assessment or tax notice:

- Description of the property or business
- Name or mailing address on the notice
- Assessment of the property or business
- Assessment class or subclass assigned to the property (this can affect the tax rate)
- The type of property
- The type of improvement
- The school support listed
- Whether the property is assessable
- Whether the business or property is exempt from taxation

The assessment review board cannot hear complaints about the amount of the property tax bill or the municipality's tax rate. Assessment review boards cannot change the tax rates or the services provided by the municipality. If a property owner has specific concerns about these issues, he or she can discuss them with the municipality's administration or council.

How to file a complaint

Complaints must be filed in writing on or before the deadline shown on the assessment notice. The complaint must include:

- Written reasons for the complaint
- The complainant's mailing address
- The filing fee, if applicable

If an assessment notice and tax notice are combined, the deadline for filing a complaint is on the tax notice. Municipalities must give the assessed person a minimum of 30 days to file a complaint.

Once the complaint has been filed, the assessment review board clerk will schedule a date for the complaint hearing. At the hearing, the complainant will present his or her case to the board. The assessor for the municipality generally attends the hearing to present information on behalf of the municipality. After hearing all presentations, the assessment review board may announce its decision at the hearing if the members believe they can make an immediate decision. If the board does not make a decision at the hearing, the decision will be mailed to the complainant at a later date. All decisions of a municipality's assessment review board must be made within 150 days of the mailing of the municipality's assessment notices.

Municipal Government Board

Sometimes those affected by an assessment review board decision (property owners, assessors, etc.) are not happy with the decision made by the assessment review board. If this is the case, an appeal of the decision may be filed with the Municipal Government Board.

The Municipal Government Board is also a quasi-judicial administrative board. Members of this board are appointed by the province, not the municipality. Appeals to the Municipal Government Board must be filed within 30 days of receiving the written notice of the assessment review board's decision. At the Municipal Government Board hearing, the complainant is required to make a presentation similar to the one that was made to the assessment review board.

The Municipal Government Act provides that the decisions of the provincial board are final in matters relating to property assessments. Points of law may be appealed to the Court of Queen's Bench and pursued through the Alberta judicial system.

Impact of assessment complaint or appeal decisions

It is important to note that any decision an assessment review board or the Municipal Government Board makes is for the current year's assessment only. This means that the decision does not apply to previous assessments, nor will it be applicable to the next year's property assessment. For example, if the assessed value of a property is decreased as a result of a board's decision, it will not result in adjustments to previous years' assessments, nor will it have any bearing on assessments that are prepared in the future.

chapter 4: Property taxation

Property assessments are used to determine how much tax a property owner will pay. This chapter examines taxation as a source of revenue for a municipality. Topics include:

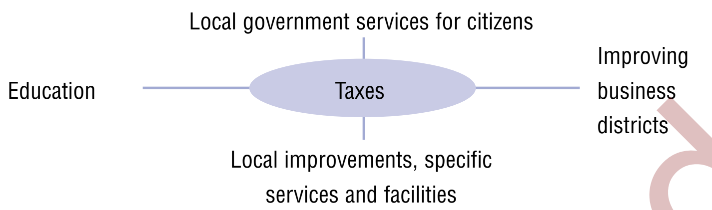
- Municipal property tax
- Provincial education property tax
- The importance of the equalized assessment
- Other property-related taxes used in Alberta

Municipal property taxation

Under the Municipal Government Act, municipalities are responsible for collecting taxes for municipal and educational purposes. Property taxes are levied based on the value of the property as determined during the property assessment process. Property taxes are not a fee for service, but a way of distributing the cost for local government services and programs fairly throughout a municipality.

The property tax system is comprised of two distinct processes — calculating the assessments, and setting the tax rate. The assessor's job is to calculate assessments. The municipal council is responsible for completing the second process, setting the tax rate. In addition to setting the tax rate, the municipal council is responsible for calculating the taxes payable, and collecting the taxes.

FIGURE 4.1 What Property Taxes Are Used For



Tax rate

The relationship between property assessment and taxation can be seen in the following formula:

Property assessment × Tax rate = Taxes payable

This formula means that the assessed value of the property in dollars is multiplied by the tax rate set by the municipality. The result is the amount of taxes each property is responsible for.

Each year, municipal councils determine the amount of money they need to operate their municipality. From this amount, the council then subtracts known revenues (for example, licences, grants, and permits). The remainder is the amount of money the municipality needs to raise through property taxes in order to provide services for the year.

This revenue requirement is then used to calculate the tax rate. The tax rate is the percentage of assessed value at which each property is taxed in a municipality. The revenue requirement is divided by the assessment base (the total value of all assessed properties in the municipality). The tax rate calculation is expressed in the following formula:

$$\frac{\text{Revenue requirement}}{\text{Assessment base}} \times 1{,}000 = \text{Tax rate (in mills)}$$

The tax rate is usually expressed in terms of a mill rate. In tax terms, one mill is equal to 1/1,000 of a dollar or $1 in tax for every $1,000 of assessment.

The tax rate is applied to each individual property assessment using the following formula:

$$\text{Property assessment} \times \text{Tax rate} = \text{Taxes payable}$$

A municipality may adjust its tax rate on a yearly basis depending on its revenue requirement. The tax rate a municipality chooses to set depends on the assessment base in the municipality and the amount of money it needs to generate using the property tax.

If the council requires more revenue to run the municipality and the assessment base in the municipality has remained the same, the council will have to increase its tax rate to generate the additional revenue.

If the assessment base in a municipality increases, and the tax rate remains the same, more tax dollars will be collected compared to the previous year. To collect the same amount of revenue, council would reduce its tax rate to reflect the increased assessment base.

Illustration of property tax calculation

The following equations illustrate how a municipal council uses its assessment base and revenue requirements to determine the tax rate for the municipality.

Revenue requirement	$1,000,000
Assessment base	$100,000,000

The tax rate is calculated as follows:

$$\frac{\text{Revenue requirement}}{\text{Assessment base}} \times 1{,}000 = \text{Tax rate expressed in mills}$$

$$\frac{\$1{,}000{,}000}{\$100{,}000{,}000} \times 1{,}000 = \text{10 mills (or \$0.010 per \$1,000 of assessable value)}$$

The tax rate in a municipality with this assessment base and this revenue requirement is 10 mills.

Next, the municipality applies the tax rate to each property listed on the assessment roll. For example, the tax bill for a home assessed at $85,000 would be calculated as follows;

Property assessment × Tax rate = Taxes payable

$85,000 × 0.010 = $850.00

The owner of a home assessed at $85,000 in this municipality would receive a property tax bill of $850.

Equalized assessment

Municipalities may choose to share costs associated with communal or inter-municipal programs. These include programs such as regional ambulance services, fire protection services, and recreation services. Equalized assessment is a process used to distribute the costs of these programs fairly among participants. It may also be used to fairly distribute provincial and federal grants.

Equalization is a process used to convert property assessments in municipalities to a common level for cost sharing purposes. This is done by bringing all non-regulated properties (land and improvements) to 100 percent of market value. Even with a legislated market value standard, there are cases where the property assessment levels in a municipality do not equal 100 percent of market value for various property classes. Regulated properties such as pipelines, power lines, cable television, telecommunications, farm land, and machinery and equipment do not require an adjustment.

Education property taxes

In Alberta, education is a provincial program. The taxes that fund the program are raised and distributed on a provincial basis. Education property tax dollars are pooled in the Alberta School Foundation Fund and then distributed to school boards throughout the province on a per-student basis.

This system of pooling taxes from all municipalities ensures that funds are available to provide all students with a standard level of education, no matter where they live.

Each year the province calculates the amount that every Alberta municipality must contribute towards the public education system. The calculation is based on a formula that takes into account the equalized assessment in each municipality and the provincial uniform education property tax rate.

The province notifies municipalities of the amount of education taxes they are required to collect. Each municipality then establishes its local education property tax rate. This tax rate is calculated by dividing the required amount by the municipality's current assessment.

The municipality then applies its local education tax rate to the assessed value of each property to determine the amount of education taxes each property owner is required to pay for the year. Municipalities include the education property tax on their annual property tax bills to property owners.

Municipalities collect education tax dollars from their ratepayers, and send them to the province or to a separate school board.

Other property-related taxes

In addition to the municipal property tax and the provincial education property tax, a municipality may use a number of other taxes to generate revenue for services.

Supplementary assessment and taxation

A municipality may pass a bylaw that allows it to assess new properties that were constructed after the December 31 condition date, and collect property taxes on them for a portion of the current year. To do this, the assessor for the municipality must determine the value of the new construction that has occurred since December 31 of the previous year.

The assessor calculates a value for the new construction, subtracts the value of any building or improvements that were present on the property on December 31 of the previous year, and determines the value of the supplementary assessed value. This assessed value is then placed on the supplementary assessment roll.

A supplementary assessment roll is prepared for new construction in the same way a normal assessment roll would be prepared. A supplementary assessment roll must contain the same information as an annual assessment roll. The supplementary assessment roll is used to produce supplementary assessment notices.

Supplementary assessment notices must be sent to assessed persons before the end of the calendar year. Property taxes based on the supplementary assessment are pro-rated to reflect only the portion of the year the improvement is completed, occupied, or in operation in the municipality. For example, if a building is completed on May 1, 2002, the annual assessment notice would reflect what was on the property as of December 31, 2001. A supplementary assessment notice could be sent out for the additional value added to the property with the completion of the building.

Business tax

A municipality may choose to raise revenue by imposing a business tax on the businesses operating within its boundaries. A business tax bylaw must be passed by the council before a municipality can impose a business tax. The business tax is payable by the person who operates the business, not the property owner. If the property owner also operates a business on the property, then the owner of that property would pay both property and business taxes.

In order for a municipality to be able to calculate business taxes, an assessor must first calculate a business assessment. There are five methods of calculating business assessment set out in the Municipal Government Act. The methods that business assessment can be based on are:

- A percentage of the gross annual rental value of the building;
- A percentage of the net annual rental value of the building;
- The storage capacity of the building occupied by the assessed business;
- The floor space occupied by the business; or
- A percentage of the property assessment.

Councils may choose the method they feel best suits their municipality.

Business revitalization zone tax

Sometimes business owners wish to improve the area in which they do business. Improving the area can mean constructing improvements, installing decorative lighting, plantings, boulevards, parking, or any other type of improvements that will beautify and maintain property. They may lobby the local council to establish a Business Revitalization Zone (BRZ). It is within the BRZ that any improvements will be done. Specific BRZ taxes will be shown on business tax notices for all businesses operating in the BRZ. The tax is paid by the business owner, like business tax, and is payable for the current year on the same date business taxes are due.

Local improvement tax

A local improvement tax is imposed on a specific area within a municipality to fund a service or improvement applied to a particular area only. The improvement benefits that particular area rather than the municipality as a whole. Some examples of local improvements are sidewalks, lane lighting, or paving.

Local improvement taxes are generally applied to parcels of land. This means that the owner of the parcel of land is responsible for paying the local improvement tax. A local improvement tax is allocated as an annual charge but may be charged for a set number of years.

Special tax

A municipality may choose to provide or construct a special service that will benefit a defined area within a municipality. The municipality would levy a special tax to fund the project. Some examples of special services or constructions include:

- Waterworks and sewers
- Boulevards, pavement, and drainage ditches
- Dust treatment

- Repair and maintenance of roads, sewers, and boulevards
- Ambulance service and fire protection
- Recreational services

A special tax can only be imposed if council passes a bylaw. This must be done on an annual basis. Any revenue from a special tax must be applied to the specific service or purpose that is stated in the bylaw. A property owner is responsible for paying this tax.

Well drilling equipment tax

This tax is imposed on equipment used to drill an oil or gas well. It is payable by the person who holds a license for the well being drilled.

The well drilling equipment tax is a one-time tax. It is an optional tax that municipalities may choose to impose.

Grants in place of taxes

As mentioned previously, some types of property are exempt from taxation. One kind of exempt property is property owned by the Crown; that is, the federal or provincial government.

Property that is owned by the federal or provincial government is exempt from property taxation; however, for most government-owned property that would normally be assessed and taxed if it were owned by a party other than the government, a municipality can apply for a grant in place of taxes equal to the amount it would have collected in property taxes. An example of this would be an office building that is owned by the Government of Canada. If the property was owned by anyone other than the government, the owner would pay property taxes. As the building is owned by the government, the municipality annually applies for a grant from the federal government equal to what the property taxes would be for that property for that year.

glossary:

Ad Valorem	According to value. An ad valorem tax is one that is levied in proportion to the value of the thing(s) being taxed.
Alberta School Foundation Fund	Fund into which all education funds are pooled. This fund was created in 1994 to provide equal educational funding to all school boards. The province distributes the funds to all public and separate system schools in the province on a per-student basis.
Assessment	Process of placing a dollar value on properties for taxation purposes. The value of the assessment influences the amount of taxes that will be charged to the owner of the property.
Assessment base	The total assessed value of all property within a municipality.
Assessment classes	Under Alberta legislation, one of four classes (residential, non-residential, farm land, and machinery and equipment) to which assessed property is assigned.
Assessment notice	Assessment notices are created from the information on the assessment roll.
Assessment review board (ARB)	First level of formal complaint for property owners who disagree with their assessment, except linear property.
Assessment roll	List of all assessable properties and their assessed values. The Municipal Government Act requires each municipality to produce an assessment roll each year. The roll must be completed by February 28 each year.
Business revitalization zone tax	Tax imposed on a designated business revitalization zone to fund improvements that will beautify and maintain the area.

Business tax	Tax to raise revenues from businesses within a municipality's boundaries. A municipal council must pass a bylaw to impose a business tax. The business tax payable is the responsibility of the person operating the business.
Condition date	The date on which the condition of the property is fixed for property assessment purposes. The condition date in Alberta is December 31.
Cost approach	One of the approaches used to value property for assessment purposes. The cost approach is based on the theory that a person would pay no more for an object than it would cost to replace it. With regard to property, the assumption is that a purchaser would not pay any more to purchase a property than it would cost to buy the land and then rebuild the exact buildings or improvements.
Depreciation	A loss in value due to any cause.
Education requisition	A municipality's share of the total cost of providing education in the province.
Education tax	The amount each assessed person must contribute towards a municipality's overall provincial education requisition. It is added to each property owner's tax bill.
Equalized assessment	A method of comparing property wealth among municipalities. Equalized assessments are used to determine the cost of each municipality's cost sharing programs, and for determining the amount of funds needed for other requisitions.
Exemption	A complete or partial elimination of assessment and/or property taxation.

Improvements	Buildings, or other structures, and attachments to land that are intended to remain attached (i.e. sidewalks, tunnels, pavement, pipelines, etc.).
Income approach	One of the approaches used to value property for assessment purposes. The income approach is based on the theory that income-producing properties are bought and sold based on their income-earning potential.
Linear property	Property that generally extends in lines and has distribution networks or other facilities that extend across municipalities and municipal boundaries (for example, oil and gas wells, pipelines, and electric power systems).
Local improvement tax	A tax imposed on a specific region in a municipality that funds a service or improvement applied to a particular area only.
Market value	The price a property might reasonably be expected to sell for if sold by a willing seller to a willing buyer after appropriate time and exposure on an open market.
Market-value-based assessment standard	Property assessment standard with a basis of market value.
Mass appraisal	Process of valuing a group of properties as of a given date, using common data, mathematical models, and statistical tests. The use of mass appraisal allows assessors to accurately value a large number of properties in a short period of time.
Mill rate	A tax rate expressed in terms of dollars payable per $1,000 of assessable value. Comes from the Latin word *mil*, meaning 1,000. One mill is equal to 1/1,000 of a dollar.

Municipal Government Act	The legislation governing all aspects of municipal government activities in Alberta, including assessment and municipal taxation powers. This act became effective on January 1, 1995.
Municipal Government Board	The second level of assessment appeal. The first level of appeal for linear property.
Personal property	All moveable items of property not permanently attached to, or part of, the real estate. Examples include automobiles, furniture, jewellery, and works of art.
Real estate	The physical parcel of land and all improvements permanently attached.
Regulated assessment standard	Assessment standard used to value properties when the value is determined by the activity or production capability, rather than the value of the property itself.
Regulated properties	Properties whose value is determined by the activity or production capability, rather than the property itself. Regulated properties include farm land, machinery and equipment, linear property, and railway property.
Sales comparison approach	One of the approaches used to value property for assessment purposes. This approach is based on the theory that the market value of a property is directly related to the prices of similar properties.
Special tax	A tax to fund a special service that will benefit a defined area within a municipality.
Supplementary assessment	Assessment of improvements that were constructed during a year and not captured on the annual assessment notice.
Supplementary taxation	Levying taxes based on supplementary assessments.

Tax burden — Economic costs or losses resulting from the imposition of a tax.

Tax rate — Percentage of assessed value at which each property is taxed in a municipality. Some municipalities express this in terms of mills or mill rate.

Taxation — The process of applying a tax rate to an assessed value to determine the taxes owing.

Valuation date — A fixed point in time on which assessment values are based. The valuation date in Alberta is July 1.

Well drilling equipment tax — Tax imposed on equipment used to drill an oil or gas well.

index

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