



City of Richmond

Report to Committee

To: Finance Committee **Date:** January 3, 2017
From: Andrew Nazareth **File:**
General Manager
Finance & Corporate Services
Re: **Provincial Tax Deferment Program**

Staff Recommendation

1. That staff be directed to actively promote the Provincial Tax Deferment Program as a means of reducing the financial burden for seniors and families with children.
2. That staff be directed to analyze the benefit and the possibility of having more than one residential tax rate to deal with the valuation disparity between strata and single family detached residential properties.
3. That a letter be written to the Minister, requesting the Province to make changes to the Home Owner Grant program and tax allocation program to provide a more fair and equitable system of property taxation in BC.

Andrew Nazareth
General Manager, Finance & Corporate Services
(604-276-4095)

| |
|---|
| REPORT CONCURRENCE |
| CONCURRENCE OF GENERAL MANAGER |
| APPROVED BY CAO |

Staff Report

Origin

Based on the Completed Roll, average 2017 assessment increase for the residential class of properties in the City of Richmond is 35.21%. Breaking this down to specific types of residential properties, residential strata units have an average increase of 22.33% and single family detached homes have an average increase of 42.37%. Generally speaking, based on these changes, single family detached homes have increased greater than the overall City residential average and will result in higher property taxes while most strata units will have property tax decreases.

Adding to the burden, single family detached home prices in the Lower Mainland have reached a point where many houses no longer qualify for a home owner grant. Prior to 2009, the Province set assessment thresholds so that 97% of the residential properties in BC qualified for a grant. By 2016, the Province reduced the qualifying percentage to greater than 91% of the residential properties in BC. This resulted in school tax increases to many of Richmond's residents without the benefit of having a home owner grant to offset the increase. Attachment 1 shows the school tax increases and home owner grants claimed over the past 10 years.

With these figures, many seniors on a fixed income have watched their single family home price increase in value exponentially to the point where they are finding it difficult to pay their property taxes. To help reduce the financial burden for seniors and young families, the Province of BC offers a Tax Deferment Program ("TDP") to help qualifying seniors or families with children defer their property taxes until they decide to sell their homes.

The purpose of this report is to explain the application requirements of the program and to promote it as an affordable financing tool for the property owner.

Analysis

The City was recently advised by BC Assessment that early notification letters were sent to property owners where the 2017 assessment increase significantly exceeds the average range. A total of 4,501 letters were sent out to owners of single family detached homes where the 2017 assessment increase is greater than 50%.

By law, the City is required to set a single tax rate for each assessment class. Property owners whose properties outperformed the average will see much higher tax increases while those with property value changes less than the average will see tax decreases. A video explaining this concept may be found on the City's website at:

<http://www.richmond.ca/cityhall/finance/propertyassessments.htm>

The TDP was designed to help those qualifying property owners where their cashflows cannot keep up with their land appreciation. Without physically selling their homes, land appreciation is merely a paper gain that cannot help the owner meet their daily expenses. Instead of struggling to save for current property tax payments, the TDP allows a property owner to utilize the gains and to defer taxes until they sell their home.

General TDP Overview

The TDP is a provincially administered program where the Province determines whether an applicant qualifies to defer their property taxes. All applications for tax deferral must be submitted to the City's tax section after the property tax bill is received and before the tax due date to be forwarded to the Tax Deferment Office for their processing. Application forms submitted after the tax due date will be subject to penalty charges.

Application forms are available at the City's tax counter or online at http://www.sbr.gov.bc.ca/documents_library/forms/0051FILL.pdf.

There are two deferment programs currently available for:

- Regular Program
 - A person aged 55 years or older during the current year or
 - a surviving spouse of any age or
 - a person with disabilities
- Families with Children Program
 - a parent, stepparent or anyone financially supporting a child

Basic qualification requirements for both programs are the same in that the applicant must be:

- a Canadian citizen or permanent resident
- have been living in BC for at least one year
- a registered owner of the property
- have paid all previous years' property taxes, utility fees, penalties and interest
- have current fire insurance for the improvements on the property

Other distinct requirements for each program are:

- Regular Program
 - have and maintain a minimum equity of 25% of the property's assessed value
- Families with Children Program
 - have and maintain a minimum equity of 15% of the property's assessed value

Tax deferral is only available for class 1-residential or class 9-farm properties that are used as principal residences. If the application is approved, the Province pays to the City, the current year unpaid property taxes on behalf of the applicant. The amount deferred will incur simple interest at the current rate of 0.7% for the regular program and 2.7% for the families with children program. Interest is set every 6 months by the Minister of Finance.

Once an application is approved, the Province will register a restrictive lien against the property so that the owner cannot change title of the property except to add the name of a spouse. The property owner must repay the outstanding deferment balance before they can:

- sell the property
- change property owners other than adding the name of the spouse
- refinance with some financial institutions (property owners are advised to check with their financial institution)

Rationale for Tax Deferment

It is not always clear that the tax deferment program will allow seniors to utilize their property appreciation without selling their home.

The following is a table of the average assessment value for a single family detached (“SFD”) home in Richmond from 2007 – 2016 to illustrate the financial rationale behind tax deferment:

| <u>Year</u> | <u>Average SFD Home Value</u> | <u>YOY Appreciation in Assessed Value</u> | <u>Average Property Tax on a SFD Home</u> |
|-------------------|-------------------------------|---|---|
| 2007 | 591,488 | | 2,905 |
| 2008 | 662,738 | 71,250 | 2,999 |
| 2009 | 663,933 | 1,195 | 3,128 |
| 2010 | 684,769 | 20,836 | 3,269 |
| 2011 | 832,719 | 147,949 | 3,590 |
| 2012 | 993,118 | 160,398 | 3,985 |
| 2013 | 971,675 | (21,442) | 4,049 |
| 2014 | 939,311 | (32,364) | 4,062 |
| 2015 | 1,008,269 | 68,958 | 4,220 |
| 2016 | 1,160,068 | 151,798 | 4,503 |
| Cumulative Totals | | 568,580 | 36,711 |

In the years leading up to 2016, single family detached home values in Richmond appreciated by 96.13% or approximately \$568,580. Property taxes for the same period totalled \$36,711 or 3.16% of the current value of the property. In this scenario, if the property owner deferred taxes each year, the deferred amount is only 6.72% of the total 10-year property appreciation.

Adding to the fear of being in debt, some seniors are afraid of escalating interest charges on the taxes deferred. To alleviate the tax burden on seniors, the Province charges prime minus 2% simple interest on only the principal amount borrowed. Interest is never compounded like other conventional loans from a financial institution.

In the past 10 years, tax deferment interest rates came down from a high of 4% in 2007 to as low as 0.25% in late 2009 and early 2010. Current interest is set at 0.70%. In the above example, if the property owner had deferred property taxes starting in 2007, the total interest charged would

be approximately \$1,635 for the 10-year period. Adding this to the outstanding principal, the home owner would owe \$38,226 or 3.30% of the current property value.

If the property owner had locked in the same amount of tax payments into a term deposit, the property owner could earn more in net interest revenue given that some banks are currently offering 1.5% interest on term deposits while the Province is charging 0.70% interest for tax deferment. However, because interest rates fluctuate over time, this is provided as an example of potential interest revenue and not a guaranteed revenue stream.

For some property owners, deferring taxes would allow them the flexibility of making costly repairs or upgrades to their homes so that they can live more comfortably and afford to stay in the community.

Current Deferment

Prior to 2016, the City received approximately 270 new tax deferment applications annually. With significant assessment increases for single family detached homes in 2016, the City received over 500 new applications this year. The City currently has over 1600 active deferment files and has closed over 3000 deferment files since 2000. Closed files are usually due to property sales or property refinancing.

Given that the City has almost 70,000 residential units and over 14,000 seniors in the community, the number of active deferments is low in comparison. Promoting the TDP will give property owners a better understanding of the financing option available to them while their land value continues to increase.

Financial Impact

There is no financial impact to the City as the Province pays the current outstanding taxes on behalf of the taxpayer.

Conclusion

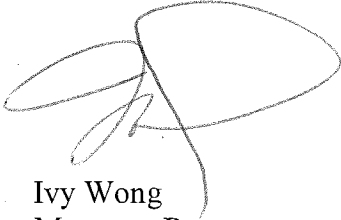
That staff be directed to actively promote the Provincial Tax Deferment Program as a means of reducing financial burden for seniors and families with children through multimedia, newspaper advertisements, and the City's website.

Also, that staff be directed to analyze the benefit and the possibility of having more than one residential tax rate to deal with the valuation disparity between strata and single family detached residential properties.

January 3, 2017

- 6 -

Finally, that a letter be written to the Minister, requesting the Province to make changes to the Home Owner Grant program and tax allocation program to provide a more fair and equitable system of property taxation in BC.

A handwritten signature in black ink, appearing to be 'Ivy Wong', written over a large, light-colored oval shape.

Ivy Wong
Manager, Revenue
(604-276-4046)

IW:iw

School Tax Requisition on Residential Class

| | Residential School Requisition Before Appeals | # of Folios | Total HOGs Claimed | Net Payment Before Appeals | YOY % Change Based on Requested Amount For Residential Class | YOY % Change in Net Collected From Residential Class |
|-------|---|-------------|--------------------|----------------------------|--|--|
| 2016* | 76,551,162 | 69,998 | 29,427,037 | 47,124,125 | 3.50% | 7.04% |
| 2015 | 73,964,956 | 68,192 | 29,939,723 | 44,025,233 | 2.89% | 5.84% |
| 2014 | 71,886,770 | 67,186 | 30,292,139 | 41,594,631 | 1.13% | 2.66% |
| 2013 | 71,084,661 | 65,585 | 30,566,611 | 40,518,050 | 1.08% | 0.55% |
| 2012 | 70,327,415 | 64,751 | 30,031,261 | 40,296,154 | 8.83% | 18.83% |
| 2011 | 64,621,471 | 63,994 | 30,710,466 | 33,911,005 | 7.70% | 18.03% |
| 2010 | 60,000,626 | 63,148 | 31,269,555 | 28,731,072 | 8.70% | 16.57% |
| 2009 | 55,197,192 | 61,626 | 30,549,672 | 24,647,521 | -4.23% | -10.75% |
| 2008 | 57,636,286 | 60,083 | 30,020,993 | 27,615,293 | 7.63% | 14.02% |
| 2007 | 53,552,720 | 58,757 | 29,332,455 | 24,220,265 | | |

Total Change
(over 9 years):

37.22% 72.79%

Average
Change per
year:

4.14% 8.09%

* 2016 HOG amount has not been finalized