Property Assessment Reviews – *An Introduction*

by Michael C. Lount, B.A.Sc., AACI

In this article, some basic concepts of the market value based property tax system are reviewed.They are written on the basis and perspective of assessment practice in the Province of British Columbia, Canada. These concepts have wide ranging application through Canadian and American taxing jurisdictions. Most other areas use some form of a market valuation, or ad valorem, based property tax system.This article does not offer advice regarding any particular property or assessment. Rather, it is a simplified introduction to the complex and specialized world of property tax assessments. As you read on, you will become aware of why it is critical to become informed and savvy about assessment methods and about your city taxes.

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If your assessment is too high, your taxes will be too high!

This new year will bring with it a new Property Assessment Notice from the British Columbia Assessment Authority. This is your British Columbia assessment based on the estimated market value of your property. You should receive your notice with your BC assessment by January 10th. The values indicated in this notice are of the utmost importance, as they will ultimately determine your property taxes for the year. If your assessment is too high, your taxes will be too high. It's that simple! Scrutinize your assessment closely!

Variable Mill Rates

British Columbia operates under a variable mill rate system. Assessments in BC are generally fixed at 100% of market values to which the applicable mill rate is applied. All properties are divided into one or more of nine classes. The most common classes are Residential, Business, Light Industrial, and Recre-ational. Others include Heavy Industry (Manufacturing), Farm and Utilities. Each Municipality or City sets a different mill rate for each class of property, and the differences in these variable mill rates can be substantial. For example, the 2000 Residential mill rate in Vancouver is $6.28 per $1,000 assessed value, compared with $26.82 per $1,000 for Business properties. In other words, Business properties are taxed at a rate 4.2 times higher than that of Residential properties, and this ratio is fairly typical for other municipalities as well. So, any review must consider the appropriate property classification.

Mistakes happen frequently!

You may think you can't fight City Hall, so what's the point? Well, if you have a meritorious case, your chances of having your assessment (and hence your city taxes) reduced are good. However, it may not be an easy or straightforward process, particularly for commercial business or industrial properties. Mistakes happen frequently and can be carried on through the system for many years. If a mistake is not corrected in the first year it occurs, any resulting overpayment of city taxes will not be recoverable if discovered in future years. In one case, a small business overpaid in excess of $100,000 over a period of five or six years. Despite general agreement that the property had been over-assessed, the taxing jurisdiction refused to refund the overage. In another case, over-taxation amounted to several hundred thousand dollars per year.

When to File An Appeal

If your assessment is too high, you may file a written appeal on or before January 31st of the year. Time is of the essence, so if you are unsure whether or not your BC assessment is fair, you can file a "Holding Appeal" before the January 31 deadline. For those of you who like to live dangerously, a January 31 postmark should do the trick. But, in all cases a registered letter is a wise idea. Lost appeal letters are rare but happen every year. Commercial and industrial property owners should consult an independent property tax expert as soon as possible before this deadline.

A demanding task – Prone to Error!

Assessments are prone to error!! They are produced on a mass appraisal basis and the total number of properties assessed each year in British Columbia exceeds 1.6 million parcels. Over 230,000 notices are mailed each year, and many of these notices cover multiple properties. Each appraiser at British Columbia Assessment Authority handles a volume in excess of 4,000 parcels and each clerical employee deals with more than 9,000 parcels each year. This is a demanding task for the Assessment Authority and its staff. They labour under challenging circumstances; the odds are that errors will occur. If you or your tax consultant does not catch an error in your assessment, chances are no one else will. The City certainly will not tell you there is an error, after all - you are their income source!

It's Just an opinion!

The assessed value is British Columbia Assessment Authority's opinion of the "actual value" of the property. The actual value is defined in turn as the "market value of the fee simple interest " — in reality it's a special market value for tax purposes. The valuation date used is July 1st of the year preceding the assessment notice. For example, the 2001 assessment notice should reflect the July 1, 2000 market value of the property. This is generally the case for the Residential, Business and Light Industrial classes of properties. Different procedures may apply for Farm, Utility or Heavy Industrial classes of properties. Also, of note is the fact that the market value for tax purposes may well be substantially different than for sales purposes.

Year over Year Comparison?

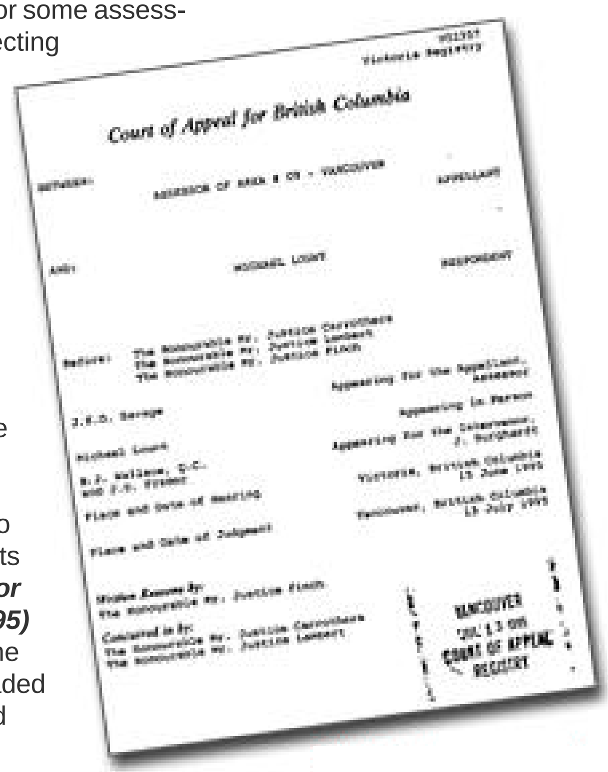
One of the most common methods of reviewing the new assessments is to compare them side by side with the previous year's assessments, and then develop a percentage difference. The property showing a high percentage increase with regard to similar properties is flagged for further investigation. While this can generally be useful, it does not identify properties whose assessments should have gone down but remained the same, or properties whose assessments have not decreased as much as they should have. In an ever more rapidly changing real estate market with certain properties increasing in value while others are dropping, it is more important than ever to identify the particular value trend that is occurring for each property type in your portfolio. Just because your assessment has gone down does not mean that your taxes will show a corresponding decrease.

Beware the Tax Shift!

It is not just the assessment change that is important, but how your assessment has changed in relation to similar properties. If other properties in a similar category have decreased in value by 20% and yours has actually gone down by only 10%, you can expect a shift in taxes to your property and a tax increase may occur. Just because your assessment has gone down does not mean your taxes will go down.

Assessments Must Be Conservative and Guarded

The courts have clearly established that the assessment must be conservative and guarded, not speculative. Recently there has been a trend for some assessment areas to forecast, or lead the market by projecting future growth and including it in the assessed value. If hard comparable sales evidence does not exist to support the assessor's speculative valuation, you should have a good case for a downward revision to your assessment valuation


Victoria Registry

Court of Appeal for British Columbia

Between: Assessor of Area # 09 - Vancouver Appellant

And: Michael Lount Respondent

Place and Date of Hearing — Victoria, British Columbia, 13 June 1995

Place and Date of Judgment — Vancouver, British Columbia, 13 July 1995

Equity Does Matter!

Another concept of interest to anyone reviewing their assessment is that of equity. The assessments are not only supposed to be at market value but should be fair and equitable compared with other similar properties in the area. Although the British Columbia Assessment Authority has tried to do away with this "inconvenient concept", the courts have upheld the equity requirement. See ***Assessor of Area #09 - Vancouver v. Michael Lount, (1995) B.C. Court of Appeal***. But don't be surprised if the assessor resists this concept. And don't be dissuaded by this resistance. If the assessment is not fair and equitable, an appeal should be filed.

Remember – You Are The Target!

The BC assessment you receive each January is the provincial government's opinion of your property's value for property tax purposes. It is important, especially for commercial and industrial properties and must be closely scrutinized. Remember - you are the target! If your assessment is too high, your city taxes will be too high. Mistakes do happen in the demanding assessment process. Assessments must be conservative and guarded, not speculative. Remember equity does matter and you can fight City Hall!