

# **Revitalization Tax Exemptions:**

## **A Primer on the Provisions in the *Community Charter***



Ministry of Community Services

Local Government Department

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## REVITALIZATION TAX EXEMPTIONS

### Legislation

Section 226 of the *Community Charter* provides authority to exempt from municipal property value taxes property in a designated revitalization area. Council may designate the area, establish objectives and a program, enter into agreements with property owners, and then exempt their property from taxation once eligible property investments have been completed. Exemptions may only be provided to properties where new improvements are constructed, or existing improvements are upgraded. The maximum amount of any exemption agreed to between the Council and the property owner may not exceed the increase in the assessed value of the property that results during the construction or upgrade of the improvements.

Revitalization tax exemptions are limited to municipal property value taxes (Section 197(1)(a) of the *Community Charter* only) and do not extend to school and other property taxes, such as parcel taxes. In that respect, section 131(9) of the *School Act* specifically states that “property that is exempted under section 226 of the *Community Charter* is not exempted from taxation under this Act”. An exemption may only be granted for a five year period, with an option to extend the exemption for an additional five years.

The authority to provide a revitalization tax exemption is not subject to section 25 of the *Community Charter* (prohibition against assistance to business).

### What is the intent?

Revitalization tax exemptions are a tool that councils may use to encourage certain types of property investment and to achieve other social, economic and development objectives. A revitalization program may apply to a small area or areas, a certain type of property or properties, or an entire municipality.

Examples of revitalization objectives that could be encouraged through the use of a revitalization tax exemption scheme include:

- neighbourhood rejuvenation
- façade improvements and beautification

- redevelopment for community sustainability
- conservation of heritage property
- innovative design or “green” building technology
- residential “intensification”
- brownfields (contaminated sites) redevelopment

### **What is required?**

Part 7, Division 7 [Permissive Exemptions] of the *Community Charter* provides the general authority for permissive exemptions. The ["Permissive Exemptions"](#) guideline provides an overview of this process and related considerations.

Section 226 sets out the basic requirements for a revitalization tax exemption program:

- Council must designate an *area* as a revitalization area in either the financial plan (section 165) or the official community plan. The designation must include the *reasons* for, and *objectives* of, the designation.
- Council must establish a revitalization tax exemption *program*, by bylaw, which may include the kinds of property revitalization that will be eligible for exemption, the extent of the exemption available, the conditions on which certificates may be issued and provisions for a *recapture* of foregone taxes if specified conditions are not met by the property owner.
- The bylaw must establish:
  - the amounts of exemptions, or formulas to determine the amounts, or both
  - the maximum term of the exemption, which may not be longer than 5 years, and may provide for a renewal of a further 5 years
- Once the conditions established in the *bylaw* and an *agreement* between the property owner and the municipality have been met, a revitalization tax exemption certificate must be issued for the property that is the subject of the agreement. This certificate must be issued no later than October 31 in the year before the tax exemption takes effect.

Section 227 [Notice of permissive tax exemptions] also sets out some additional notice requirements in relation to a revitalization tax exemptions program bylaw.

## What to consider?

There is no requirement for a council to establish a revitalization tax exemption program. This is a policy tool that council may use at their discretion. In addition to any council policies for the use of general permissive tax exemptions (Please see: ["Permissive Exemptions"](#) ) Council may wish to consider some additional factors in the design of any program:

- What are the municipal objectives for the social, economic and environmental well-being of the community?
- How might a revitalization tax exemption be used to further these objectives?
- What is the “right” amount of tax relief to encourage property investment under a revitalization tax exemption program?
- Is this type of investment likely to occur without any tax incentives in place?
- What will such a program cost the municipality in terms of lost tax revenue, overhead to manage the program, and any costs associated with servicing the new development?
- What other benefits might occur as a result of the program (e.g. A tax exemption for a new commercial enterprise might bring skilled workers to the community, who in turn invest in housing, and support local schools and business)
- Tax shift. How will the program impact the property taxes of other properties in the same assessment class, and the taxes of properties in other classes of assessment?
- Can council explain their intentions clearly and demonstrate how the program supports municipal purposes? And what does the community think about the proposal?

## FAQs

### ***Can council provide a section 226 tax exemption to property improvements that were completed before they designated the revitalization area?***

No. The purpose of a program is to encourage revitalization in an area. If the investment occurred before the area was designated in the financial plan or the official community plan, then it is not eligible for a revitalization tax exemption. Council should provide clear program rules about which investments will be eligible, how they will determine when construction of the improvement began (e.g. date the building permit was issued) and when it was completed (e.g. date of final building inspection).

***Council can designate a revitalization area in either the financial plan or the Official Community Plan. Why might they choose one approach over the other?***

Using the financial plan is a quick and straightforward way to designate a revitalization area. A financial plan must be adopted each year by bylaw. Council is required to consult with the public about the plan before the bylaw is adopted and may design the process for doing so.

A council may have clear policy reasons for designating a revitalization area in the official community plan (OCP) instead of the financial plan. An OCP is a statement of objectives and policies to guide planning and land use management in an area. A revitalization tax exemption program may be designed to support these objectives.

For example, an OCP may set objectives for environmentally-sustainable or “green” development that could be encouraged through the use of revitalization tax exemptions. Or, council may wish to create a revitalization area that corresponds with a Development Permit Area that has already been designated in the OCP, using the tax exemption to achieve objectives for the form and character of the area. A designation in the OCP might also be appropriate for a council that uses zoning to establish classes of eligible property.

Using the OCP also subjects the scheme to public consultation and a statutory public hearing, under the requirements of Part 26 of the *Local Government Act*. This is a well-understood approach to engaging the community in a discussion about the future of an area.

***An owner may only receive a section 226 exemption after they complete a property improvement. So why is the maximum exemption in s. 226(5)(b) based on the value of land and improvements?***

In British Columbia, the assessed value of property is made up of the value of the land plus the value of any improvements on that land. When an owner invests in a physical improvement to property (e.g. a building addition) and the assessed value increases, this may be due to an increase in any or all of the following: the market value of the new improvement; the market value of an existing improvement; the market value of the land. To avoid appeals of the values for “land” and “improvement”, which are reported separately on the Notice of Assessment, the maximum value subject to exemption has been set as the increase in the **total** property value (land plus improvements) following construction of the improvement.

***In section 226(5)(b) the legislation defines the maximum amount of the tax exemption that may be granted by council by referring to the assessed values in two different years. How does this affect the timing for issuing tax exemption certificates? And what happens if the construction of the improvements take place over more than one year?***

You need to look at both s. 226(5)(b) and section 226(11) to understand how the scheme works. The intent of the legislation is that a council may exempt up to 100% of the increase in assessed value of the property following construction of a new improvement. This is done by comparing the assessed values of the property before and after construction.

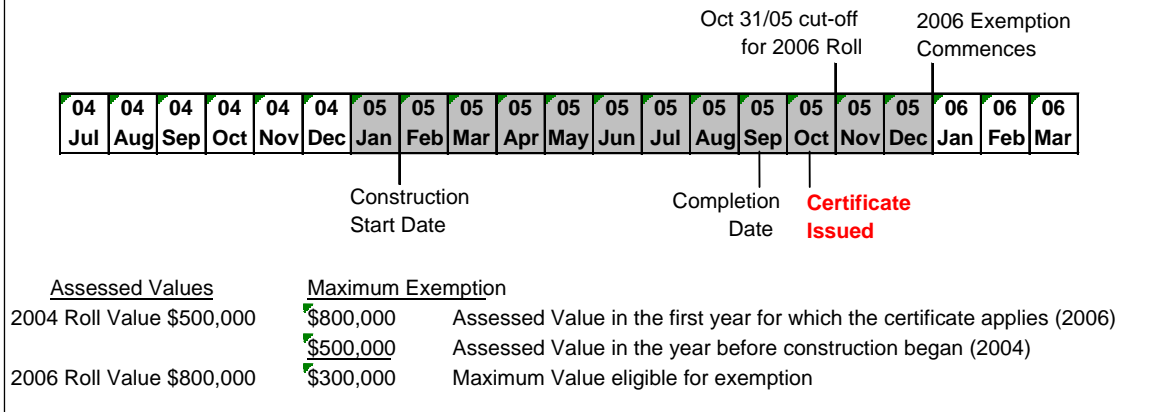
According to section 226(11), an exemption goes into effect in a calendar year as long as a tax exemption certificate is issued on or before October 31<sup>st</sup> in the preceding year (i.e. by the cut-off date for the passage of other permissive tax exemption bylaws which are given effect in the following tax year). Assuming the project is completed and a certificate issued before October 31<sup>st</sup>, an owner could receive a tax exemption on any amount up to the maximum amount specified in the legislation as early as the following taxation year. The maximum value of the exemption will be:

Maximum value of exemption	=	Value of the property on the Assessment Roll in the calendar year for which the certificate applies	-	Value of the property on the Assessment Roll in the calendar year before the construction started
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**Example 1: Single Year Construction Project**

In 2005, an owner invests \$300,000 in property improvements, increasing the property's value to \$800,000. This increase in value is captured on the 2006 assessment roll. Because the exemption certificate was issued on or before October 31, 2005 the tax exemption will apply to the property in 2006.

**Example 1: \$300,000 Investment in 2005**

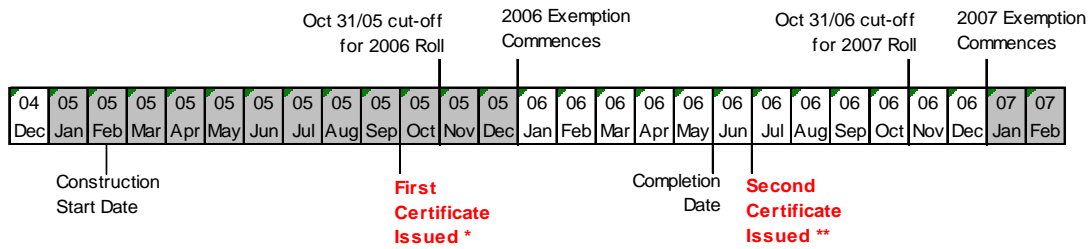


If construction of an improvement takes place over more than one year, the assessed value of the property may step up in increments over the construction period. If Council wishes to exempt any new investment from taxation as it comes on stream—as opposed to waiting until the entire project is completed—then it could address this by issuing a series of certificates. The initial certificate would be replaced by a new certificate on or before October 31<sup>st</sup> in each year that the construction progresses. The last certificate would be issued after the construction is completed. The tax exemption program bylaw would need to outline the process and conditions under which multiple certificates would be issued. However, the total term of the tax exemption under the program bylaw may not exceed 10 years (i.e. 5 years + a single 5 year renewal) counting forward from the first year in which an exemption is granted.

**Example 2: Multi-year Construction Project**

An owner begins a major construction project in February 2005. In order to exempt the value of work in progress, the municipality issues the first tax exemption certificate in October 2005. Therefore, the property receives a tax exemption in 2006 based on the initial increase in value. The project is completed in June 2006 and a second certificate is issued in July 2006. The full value of the investment will now be captured on the 2007 tax roll and the property receives a tax exemption in 2007 based on the total increase in value.

**Example 2: \$450,000 Investment over 2005 and 2006**



<u>Assessed Values</u>	<u>For the <b>First Certificate</b> --- Maximum Exemption (For 2006 Taxation Year)</u>
2004 Roll Value \$500,000	\$800,000 Assessed Value in the first year for which the certificate applies (2006)
	\$500,000 Assessed Value in the year before construction began (2004)
2006 Roll Value \$800,000	<b>\$300,000</b> Maximum Value eligible for exemption
2007 Roll Value \$950,000	<i>* This is an interim certificate issued while the facility is still under construction. It will capture work in progress during 2005, which will first appear on the 2006 Roll.</i>
	<u>For the <b>Second Certificate</b> --- Maximum Exemption (For 2007 Taxation Year and Beyond)</u>
	\$950,000 Assessed Value in the first year for which the certificate applies (2007)
	\$500,000 Assessed Value in the year before construction began (2004)
	<b>\$450,000</b> Maximum Value eligible for exemption
	<i>** This is the final certificate issued on completion of the project; it repeals the first certificate. The final certificate captures the full value of new construction over the two-year construction period.</i>

**What does the legislation mean in section 226(5)(f) when it says that a program may be different for “different classes of property” and “different classes of improvements”?**

This means that Council may use any criteria to identify the property that will be eligible for tax relief. For example, a class of property might include all the homes that were built before a certain date, or all the buildings that front on certain streets. This is designed to provide council with the greatest flexibility to determine how the tax benefit is used within a revitalization area.

**Can a revitalization tax exemption be transferred to a new property owner?**

This is a decision for Council. The legislation says that a tax exemption certificate must be issued “for the property” once all the conditions in the bylaw and agreement have been met. So the tax exemption applies to the property. However, section 226(6) permits council to enter an agreement with a property owner respecting the provision of a section 226 tax exemption “and the conditions on which it is made”. One such condition might be that the exemption no longer applies if the property changes ownership.



***What's the difference between a section 225 exemption for heritage property and using section 226 to exempt heritage property?***

A council may decide to use either section 225 or section 226 as a way to encourage heritage preservation within the municipality.

If they wish to use section 225, the property must be “eligible heritage property” that meets one of the conditions in section 225(2)(b). For these purposes, heritage property is defined in the *Local Government Act*. In contrast, section 226 provides a way to encourage investment in property with heritage characteristics without using a formal designation process.

A heritage tax exemption exempts property from *all* property value taxes—provincial and municipal—while a section 226 exemption only applies to the municipal portion. Another important difference is that section 225 does not provide a time limit on heritage exemptions, while section 226 limits the benefit to 5 years with an option to renew for 5 more. In addition, a heritage exemption bylaw requires the approval of two-thirds of all councillors; a section 226 exemption bylaw requires a simple majority vote.

Both section 225 and 226 permit council to impose conditions under which the tax exemption is granted.

**For more information:**

Contact your Financial Analyst with the [Local Government Infrastructure and Finance Division](#).

[CivicInfo](#) has links to revitalization exemption bylaws submitted by municipalities that have recently established such programs. You may wish to contact your colleagues in those areas to obtain more specific details of their process.