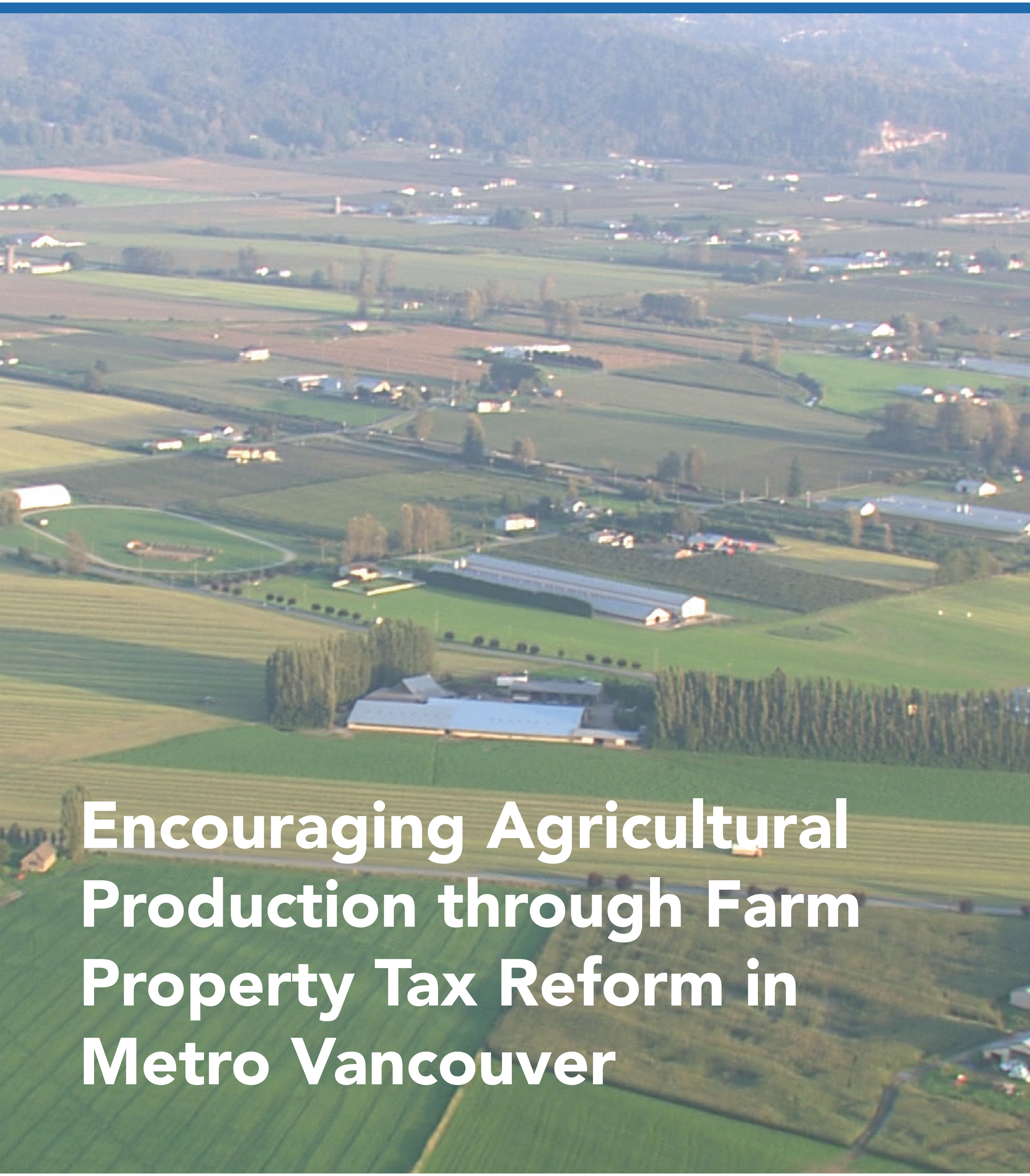

Encouraging Agricultural Production through Farm Property Tax Reform in Metro Vancouver

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Encouraging Agricultural Production through Farm Property Tax Reform in Metro Vancouver

This White Paper presents the results and recommendations of Metro Vancouver's Farm Property Tax Review. The Review was undertaken to identify tax policies that can be used as a lever to encourage farming or discourage non-farm land uses within the Agricultural Land Reserve (ALR) in the Metro Vancouver region. The research and analysis conducted during this review considered whether existing farm property tax policies, enacted to serve the public interest, still provide the financial incentives to maintain the region's ALR for farming, and if not, what could be done about it.

Agricultural land[1] in Metro Vancouver is increasingly threatened from non-farm land uses, not just exclusions from the ALR[2]. The first comprehensive agricultural land use inventory of Metro Vancouver, completed in 2011 by the BC Ministry of Agriculture, revealed that only half of the region's 60,893 hectares (ha) in the ALR is actively farmed[3]. Many of the landowners in the ALR are using agricultural land for purposes other than farming including residential, which occupies 48% of the ALR land that is not used for farming[4]. Today in Metro Vancouver, there are more non-farm property owners in the ALR, then there are farmers[5].

In addition, almost a third of the total farmed area (9,799 ha) in the region is not farmed by the landowner, but rather is leased to farmers[6]. These leases agreements are registered with BC Assessment, thereby qualifying the property as a farm for assessment purposes, commonly referred to as "farm status". Farm status confers significant tax benefits to the property owner.

Existing tax policy enables property owners that are not farming in the ALR to receive a lower tax assessment than homes or businesses located within the region's Urban Containment Boundary[7]. When agricultural land is purchased and utilized for purposes other than farming, it can lead to:

- Higher prices for agricultural land that erode the financial viability of farming and can prevent new farmers from establishing a farm business;
- Lease agreements that enable existing farms to expand their acreage at a low cost. While leases keep agricultural land in production over the short term, without secure land tenure, most farmers are hesitant to invest in equipment, buildings and other infrastructure that is often necessary to improve the profitability of farming;
- Limited investments in agricultural production that can result in lost economic development opportunities at a time when demand for local food is growing and concerns about food security over the long term are being raised;
- Increasing number of conflicts over farm management practices when non-farm residential housing is located on agricultural land; and
- The proliferation of non-farm residential and commercial uses outside the Urban Containment Boundary that will increase the demand for services such as utilities, transit, police, fire and emergency services, all of which are financed by local governments through property taxes.

When farm property tax policy inadvertently creates financial tax advantages for non-farm residential and commercial uses in the ALR, questions of equity among taxpayers emerge. Reforming farm property tax policies may or may not increase total taxes collected by municipal governments, however, it will redistribute the tax burden more equitably. Tax reform can help ensure that the lower tax assessment applied to properties in the ALR be attributed, as intended, to those investing in agriculture and managing farmland for food production over the long term. It can also better support provincial, regional and municipal objectives to protect agricultural land for farming, increase actively farmed land and improve the viability of agriculture.

Farm property tax reform requires changes to provincial legislation. Local governments can play a role by advocating for tax reform to ensure an equitable balance of benefits between farmers, other landowners and the public interest. The results and recommendations identified in this White Paper are based on conditions in the Metro Vancouver region, but could also apply to other areas of BC working to protect agricultural land from conversion to non-farm uses.

POLICIES UNDER REVIEW

The Farm Property Tax Review began in 2013 to improve the understanding of farm property tax policies related to land use in the ALR. The first report, completed by Colliers International, described the property tax benefits for landowners when their land is classified as a farm by BC Assessment[8]. The report revealed that the method for assessing the value of agricultural land that is not farmed often results in lower taxes for landowners.

Further investigation into farm property tax policy completed by KM Consulting, investigated areas of property tax policy that could be used to encourage farming or discourage non-farm land uses within the ALR[9]. The potential impacts of adjusting seven farm tax policies were evaluated and options requiring further consideration were identified. Based on the work undertaken by these consultants, and feedback from municipalities and others, the following four farm property tax policies were examined.

1. School Tax Exemption

The School Act allows all residential, farm and other properties in the ALR to receive a 50% school tax exemption, whether the land is farmed or not. Also, the 50% school tax exemption is extended to hospital, regional district, transit authority, BC Assessment and municipal financial authority fees. The amount of the school tax exemption was calculated for the different property classes in Metro Vancouver using data provided by BC Assessment.

2. Classification of Land as Farm

The Assessment Act designates nine property classes, one of which is farm (Class 9)[10]. To qualify as a farm for assessment purposes, a farmer must produce a prescribed amount of qualifying agricultural products for sale. All property owners must apply to have their land classified as farm. Landowners can also have a portion of their land classified as farm if it is leased to a farmer who meets the BC Assessment requirements. The Upland Consulting report informed the discussion on classification of land as farm and whether an increase in farm income thresholds for farm class is warranted[11].

3. The Assessed Value of Agricultural Land

The assessed value of land classified as farm for assessment purposes is based on the productive value of the land. In Metro Vancouver, this results in an assessed value that is much below the market value of the land. Other properties in the ALR not used for farming, are assessed based on the principle of 'highest and best use' using the market value and sales of comparable parcels in the ALR. These ALR properties often have a lower assessed land value and therefore pay lower property taxes than similar residential houses or businesses that are located within the Urban Containment Boundary. Examples of the financial implications of how the assessed value of agricultural land impacts property tax were drawn from the Colliers and KM Consulting reports.

4. Assessment of Farm Buildings

Buildings are improvements on the land, and therefore are considered separately in tax policy. Both residential and farm buildings are classified as residential (Class 1) and assessed at market value. If the building is located on land classified as farm, and used exclusively to operate a farm, at least 87.5% of the assessed value of the farm buildings is exempt from all property taxation. The process and legislative context for the assessment of farm buildings was provided by BC Assessment[12].

OPTIONS TO REFORM FARM PROPERTY TAX

The ability to encourage more farming within the ALR or to discourage landowners from using agricultural land for purposes other than farming was taken into account when defining appropriate farm property tax policy reform. Another important consideration was tax equity among residents and between businesses to ensure the public interest is best served by tax policies. The following four farm property tax policies were identified in the review as having the most potential to maintain agricultural land for farming in the Metro Vancouver region.

1. School Tax Exemption

The School Act provides a 50% exemption in provincial school taxes for all land in the ALR including those properties classified as residential, vacant, and other uses[13]. This 50% tax exemption also flows through to other taxes in Metro Vancouver, such as TransLink, the Greater Vancouver Regional District, Hospitals, BC Assessment and the Municipal Finance Authority.

Data analysis was conducted to determine the actual amount of the annual school tax exemption in Metro Vancouver. The results reveal that in the 2015 tax year, the exemption amounted to just over $4 million. Residential land uses (Class 1) receive the majority (78%) of the financial benefits from the school tax exemption, calculated to be $3,176,000. Properties assessed as farm (Class 9) receive 16% of the tax benefit at $669,241 (Table 1). Some other business uses (Class 6) and recreational uses such as outdoor riding arenas (Class 8), also receive the school tax exemption[14].

TABLE 1: 2015 SCHOOL TAX EXEMPTION AMOUNT BY PROPERTY CLASS AND MUNICIPALITY

SCHOOL TAX EXEMPTIONS IN THE ALR	PARCEL COUNT	CLASS 1 RESIDENTIAL	CLASS 2 UTILITIES	CLASS 5 LIGHT INDUSTRY	CLASS 6 BUSINESS	CLASS 8 RECREATION	CLASS 9 FARM	MUNICIPAL TOTAL	% TOTAL
City of Vancouver	140	$ 146,088	$ -		$ 1,682	$ 3,513	$ 724	$ 152,007	3.7%
City of Langley	2	$-	$ -		$ -	$ -	$ 41	$ 41	0.0%
City of Port Coquitlam	92	$ 26,525	$ -		$ -	$ -	$ 2,654	$ 29,179	0.7%
City of Burnaby	86	$ 18,302	$ -		$ 6,417	$ -	$ 3,996	$ 28,714	0.7%
City of Coquitlam	43	$ 10,218	$ -		$ 35,078	$ -	$ 3,467	$ 48,764	1.2%
Corporation of Delta	706	$ 83,657	$ 8,949		$ 12,969	$ 16,129	$ 154,876	$ 276,580	6.8%
Township of Langley	4,632	$ 1,634,707			$ 67,997	$ 8,930	$ 223,663	$ 1,935,297	47.5%
City of Maple Ridge	1,440	$ 472,120	$ 1,578		$ 2,946	$ 1,051	$ 14,440	$ 492,135	12.1%
City of Pitt Meadows	686	$ 86,611			$ -	$ -	$ 56,521	$ 143,131	3.5%
City of Richmond	1,755	$ 332,653			$ 12,759	$ 41,060	$ 90,683	$ 477,156	11.7%
Bowen Island	29	$ 4,503			$ -	$ -	$ 342	$ 4,845	0.1%
City of Surrey	1,205	$ 355,226		$ 36	$ 979	$ 3,702	$ 110,940	$ 470,882	11.6%
Lower Mainland Rural	53	$ 5,452			$ -	$ -	$ 6,894	$ 12,347	0.3%
Metro Vancouver Total	10,869	$ 3,176,063	$ 10,526	$ 36	$ 140,828	$ 74,384	$ 669,241	$ 4,071,079	100%
% Total		78%	0.3%	0.0%	3.5%	1.8%	16%	100%	

Overall, properties that are not used for farming purposes account for 84% of the total amount of the school tax exemption, even though they comprise of only 59% of the parcels[15]. Table 2 shows that the majority of the tax benefit, $2.5 million (62%), is attributed to parcels 2-10 acres (0.8 ha to 4 ha) in size. Small lots, less than 2 acres (<0.8 ha), which may not be subject to restrictions on the use of ALR land[16], receive $155,017 in annual school tax exemptions.

As previously mentioned, the 50% school tax exemption is extended to other agency fees. The amount of the annual 50% school tax exemption that is applied to regional district fees was calculated using the 2015 BC Assessment data. Regional district tax rates are about 3% of the school tax rate[17]. In Metro Vancouver, the 50% regional district fee tax exemption amounted to $109,289, where 91% is attributed to residential properties. Other agency fees will vary based on the tax rates that are determined by the municipalities[18].

TABLE 2: 2015 SCHOOL TAX EXEMPTION IN METRO VANCOUVER BY PARCEL SIZE CATEGORY

SCHOOL TAX EXEMPTIONS IN THE ALR	< 2 ACRES	2-10 ACRES	>10 ACRES	TOTAL PROPERTY CLASS	% TOTAL
Class 1 RESIDENTIAL	$ 139,725	$ 2,373,078	$ 663,259.93	$ 3,176,063	78%
Class 2 UTILITIES		$ 1,578	$ 8,948.80	$ 10,526	0.3%
Class 5 LIGHT INDUSTRY		$ 36		$ 36	0.0%
Class 6 BUSINESS OTHER		$ 24,330	$ 116,498.11	$ 140,828	3.5%
Class 8 RECREATION	$ 12,375	$ 35,407	$ 26,602.13	$ 74,384	1.8%
Class 9 FARM	$ 2,917	$ 111,150	$ 555,173.68	$ 669,241	16%
Metro Vancouver Total	$ 155,017	$ 2,545,579	$ 1,370,483	$ 4,071,079	100%
% Total	3.8%	62.5%	33.7%	100%	

1.1 Option: Eliminate the School Tax Exemption for Residential Properties

The policy option under consideration is to eliminate the 50% school tax exemption for properties classed as "Residential" in the ALR. This change would ensure that residential uses of land are treated equitably throughout the region, whether in or outside the ALR. Removing the exemption is also justifiable because these residential properties are not farming or leasing their land and therefore are not providing the public benefits recognized for farms.

Concern was raised about eliminating the school tax exemption for property owners who purchased land prior to the establishment of the ALR[19]. Clearly they should continue to receive the school tax exemption, however, anyone who has purchased land after the ALR was established, would likely have already been compensated for restrictions on use through the market price paid and lower annual property taxes.

The school tax exemption is an inequitable property tax policy as the main beneficiaries of the policy are residential landowners in the ALR who are not farming. Reforming this policy would provide a financial incentive to farm or lease agricultural land, as farm class would be required to receive the school tax exemption. Land classified as farm should retain the benefit because it supports active farming and the cost to society for providing this exemption to farmers is small. The elimination of residential classification from the School Act (Section 130) requires a change in provincial legislation, and would automatically apply to other agency fees defined under the Act.

2. Classification of Land as Farm

Classification of land as farm for assessment purposes, commonly referred to as "farm class", is based on the type of primary agriculture production and the required gross income from that production[20]. Farm classification only refers to the land, not the buildings or improvements. The minimum amount of gross farm revenue, referred to as the income threshold, is based on the size of the farm operation and could include multiple parcels or leased land. The gross farm income must meet or exceed the value of production threshold for any given property. Based on three farm size categories, a farm must sell a minimum of:

- $2,500 if the area of land is between 8,000m^2 (2 acres) and 4 ha (10 acres);
- $2,500 plus 5% of the farmland value of the land farmed in excess of 4 ha (10 acres);
- $10,000 if the total area of land is less than 8,000m^2 (2 acres).

Property owners who are not motivated to farm can lease their land to a qualifying farmer for a minimum of one year and receive farm class status. There are many benefits associated with farm class[21], but the most obvious is the financial benefit. The reduced taxes that result from farm class are based on the relatively low, prescribed assessed value of the land and the tax rate applied. The difference between annual property taxes paid by a landowner with and without farm class varies by municipality, but overall is significant. For example, the average difference in the annual taxes paid on a 10 acre (4 ha) lot with $150,000 in building improvements for properties with, and without farm class, using tax rates for seven municipalities was $7,088 (Table 3).

TABLE 3. EXAMPLES OF ANNUAL PROPERTY TAXES WITH AND WITHOUT FARM CLASS[22]

MUNICIPALITY	TAX WITH FARM CLASS	TAX WITHOUT FARM CLASS
Burnaby	$ 973	$ 17,566
Delta	$ 1,369	$ 8,500
Langley	$ 1,199	$ 5,072
Maple Ridge	$ 1,801	$ 6,035
Pitt Meadows	$ 1,794	$ 5,699
Richmond	$ 1,025	$ 10,511
Surrey	$ 851	$ 5,239
Metro Vancouver Average	$ 1,287	$ 8,375

The provincial legislation also enables landowners, both in and outside the ALR, to have a portion of their property classed as farm by leasing it to a farmer, who usually consolidates the land within a larger farm operation[23]. If only part of the property qualifies for farm class, the remainder is classified according to its use and zoning. Residential, commercial or industrial zoned land outside the ALR can be classified as farm regardless of whether it is consistent with municipal zoning, as long as it meets the requirements for farm classification.

The number of farms that may be impacted by an adjustment of farm income thresholds was analyzed using income ratio data provided by the provincial government for the three farm size categories. Table 4 shows the percent of Metro Vancouver property owners that may be affected if the threshold was raised, which is considered to be an income ratio of 0.00 - 1.249[24]. An income ratio of 1.0 means the landowner is reporting a farm income that is equal to the minimum threshold (i.e. $10,000 or $2,500). The data reveals that 24% of farms overall may be potentially at-risk. It is notable that the requirements must be met in at least one of the two relevant reporting periods, while some sales of qualifying products must occur every year.

Equally important is to recognize the number of farms that earn far beyond the current income threshold levels for farm class. The data indicates that 56% of farms are making more than double the income threshold levels, as indicated by an income ratio of > 2.0[25]. Also noteworthy is that 49% of small farms (less than 2 acres) have incomes that are more than double the $10,000 threshold level.

TABLE 4: FARM INCOME RATIOS FOR FARMS IN METRO VANCOUVER[26]

FARM SIZE CATEGORIES	< 2 ACRES ($10,000)		2 TO 10 ACRES ($2,500)		> 10 ACRES ($2,500 + 5%)		TOTAL FARMS	
INCOME RATIO	NUMBER OF FARMS		NUMBER OF FARMS		NUMBER OF FARMS		NUMBER OF FARMS	
0.00 – 0.999	4	10%	38	3%	58	5%	100	4%
1.00 - 1.249	8	20%	397	30%	122	10%	527	20%
1.25 - 1.499	4	10%	146	11%	75	6%	225	8%
1.50 - 1.749	3	8%	135	10%	81	6%	219	8%
1.75 - 1.999	2	5%	79	6%	38	3%	119	4%
2.00 - 2.999	6	15%	153	11%	139	11%	298	11%
3.00 - 4.999	3	8%	120	9%	110	9%	233	9%
5.00 - 9.999	3	8%	78	6%	118	9%	199	8%
>10.00	7	18%	191	14%	535	42%	733	28%
TOTAL FARMS	40	100%	1,337	100%	1,276	100%	2,653	100%

The policy question to consider is whether the income thresholds for farm classification should be adjusted. The pros and cons of increasing farm income thresholds or maintaining the status quo for the Metro Vancouver region was investigated by Upland Consulting, and resulted in a recommendation to change the threshold to a minimum of $3,500 for all property sizes[27]. This would result in an increase from $2,500 for most farms except for parcels less than 2 acres (.8 ha) that are currently required to meet a $10,000 farm income threshold for farm class. A similar recommendation emerged from the Farm Assessment Review Panel in 2009, which advocated for establishing a single threshold at a minimum of $3,500 annual gross income for all farm properties[28].

It is important to recognize the full spectrum of farm sizes and farm income levels that contribute to the region's food system. The small farms provide many societal benefits such as access to local, fresh food, agriculture education and tourism opportunities that enables the public to connect with the farming community. Also, small, new or developing farms are where the next generation of commercial farmers will emerge. As such, BC Assessment currently has provisions to accommodate new farms[29]. The more economically successful farms make significant contributions to the regional economy, export markets and local food security. Both contribute to the non-monetary ecosystem services recognized by the public as an important societal benefit[30].

2.1 Option: Change the Income Thresholds Required to Achieve Farm Classification

The first option to consider is whether to change the income threshold for all farm operations to $3,500 to qualify for farm classification, as recommended in previous studies. This change would include removing the $10,000 threshold for farms <2 acres making the farm classification process more simple to understand and administer. The increase supports the concerns expressed by many that the current $2,500 gross farm income threshold is easy to achieve and serves those who sell the minimum amount of agricultural products just to receive the tax benefits associated with farm class.

One of the main reasons for changing the threshold is to encourage more actively farmed land either though leasing agricultural land to farmers or by encouraging more investments in farming to increase income levels. In addition, removing the $10,000 income threshold for properties less than 2 acres could encourage new farms on small lots near urban areas. The proposed $3,500 threshold is based on inflation since the last increase in 1993 and is aligned with the 2009 Farm Assessment Review Panel's recommendation. If changed, the single income threshold should be assessed every five years and be adjusted based on rate of inflation.

A concern raised was that increasing farm income thresholds could make it more difficult for new, hobby, or part-time farmers to obtain farm class status, and therefore may dissuade them from continuing to farm. This would be an undesirable outcome and could be prevented by implementing a two tier farm classification benefits system as described under Option 2.2. Monitoring the impact of a change in the classification of farm policy over time is easily done using BC Assessment farm class data.

2.2 Option: Confer Different Benefits for Farm Classification based on a Two-Tier System

The second option to consider is a two-tier farm classification benefits system that confers two different levels of tax benefits dependent on farm income. Currently all land classified as farm receives the same tax benefits (i.e. a lower tax assessment on land and a tax exemption on farm buildings). A two-tier benefits system would differentiate between small, part-time or hobby farms and the more profitable commercial farm operations that run their farm business to make a living.

For example, if a farmer made $3,500 a year, they would achieve a certain level of tax benefits, while a farmer who made $10,000 a year would be eligible for a greater set of benefits, subject to more stringent requirements. Additional requirements could include proof of income from the Canada Revenue agency and an increase in the requirement for leases to at least three years. The determination of the appropriate income levels and benefits associated with a two-tier system requires more analysis and consultation.

A major challenge with creating a two-tier system is that the existing farm property tax system has already maximized benefits for active farms, therefore a two-tier system would likely reduce the tax benefits for the lower income threshold level. For example, the Quebec government has a rebate system where farms receive 77% reduction in their taxes if they make more than $10,000 per year. Those who make less than $10,000 receive a 50% rebate. Taking a new approach also creates an opportunity to recognize important societal benefits by adding new qualifying agricultural uses for assessment purposes such as payment for ecosystem services with the appropriate receipts, although this would require careful policy analysis. Implementing a two-tier system requires decisions on the level of farm income threshold for each tier and more importantly, how tax benefits should be allocated.

2.3 Option: Ensure Tax Incentives for Urban Agriculture

The third option to consider is how to encourage the emerging urban farm sector. These farm business enterprises within cities grow food for sale and provide some unique societal benefits that complement the existing regional farm network. Urban farms are most noteworthy as social enterprises to generate revenue and create jobs for low income communities, revitalize vacant spaces as well as support community education and development[31]. However, urban farms cannot easily use the tax incentive for farm class to encourage property owners to lease their land for farming. Not only does BC Assessment legislation make multiple leases on parcels less than 2 acres (0.8 ha) difficult to achieve[32], but a recent amendment to a city zoning and development bylaw has limited the ability to use tax incentives to encourage property owners to lease their land to an urban farmer[33].

The challenge of encouraging urban farms is not unique, but there are solutions. Several cities in California have embraced the *Urban Agriculture Incentive Zone Act* enacted to encourage urban agriculture by providing a tax incentive for properties that are completely dedicated toward commercial and non-commercial agriculture use[34]. Unless a category of farm class accommodates urban farms in Metro Vancouver, the future of these unique farm enterprises will be mostly limited to public land.

3. The Assessed Value of Agricultural Land

Tax policy that defines the method used in the assessment of agricultural land for tax purposes creates an opportunity to discourage non-farm uses within the ALR. It is well known that land classified as farm by BC Assessment has a low assessed value, which results in significantly lower property taxes. Less understood is the extent to which the assessed value of agricultural land impacts the amount of property taxes paid by landowners who do not farm and use ALR land for non-farm residential, business or other purposes.

Confusion arises because agricultural land is assessed in two different ways, depending on whether the land is farmed or not. Land classified as farm (Class 9) has a unique method of valuation defined by provincial legislation[35]. Farmland valuation is based on soil capacity classes where land that is capable of producing a wide range of crops has a higher assessed value than land with limitations and suitable for only a few crops, although the tax differential is not significant[36].

All other property classes in the ALR are assessed based on the market value of the land taking into account its 'highest and best use'[37] and comparable rural property values. When not used for farming, properties are assessed at full market value as determined by buyers and sellers in the marketplace, which considers properties in a similar location and of comparable size, and typically result in lower values due to the land use and subdivision restrictions placed on ALR land.

This tax policy provides a financial incentive to locate a non-farm activity on agricultural land. Non-farm residential and commercial uses of agricultural land can displace farming activities, increase conflicts over farm management practices and prevent new farmers from starting a farm business when the cost to purchase agricultural land significantly exceeds the potential financial returns. For local governments, non-farm uses outside the Urban Containment Boundary increases the demand for municipal services that are financed through property taxes.

The financial advantage of owning a non-farm residential property in the ALR is the lower tax assessment that results in lower property taxes than a similar lot within the Urban Containment Boundary. Rural residential properties also have the ability to build a bigger house than what is permitted on most city lots. There is a similar financial advantage for non-farm commercial and industrial uses to locate their business on agricultural land, although less common. In both cases, the land under the buildings is valued based on the market value of agricultural land, not the more appropriate residential, commercial or industrial zoning.

Table 5 provides an example of property taxes on a residential 5 acre (2 ha) lot in Langley that does not have farm class both in and outside the ALR[38]. When a home is located within a residentially zoned area outside the ALR, the property has significantly higher taxes because the assessment is based on the market value of residential land[39].

TABLE 5: EXAMPLE OF PROPERTY TAXES FOR A RESIDENTIAL 5 ACRE LOT IN AND OUTSIDE THE ALR (2014)

RESIDENTIAL LAND USE	LAND ASSESSED VALUE	BUILDING ASSESSED VALUE	TOTAL ASSESSED VALUE	PROPERTY TAX
Assessed as Residential in the ALR	$ 750,000	$ 451,000	$ 1,201,000	$ 3,880
Assessed as Residential outside the ALR	$ 4,207,000	$ 10,000	$ 4,217,000	$ 13,656

The next example further illustrates the difference in property taxes for an industrial building located on a 3 acre (1.2 ha) lot in Richmond (Table 6). Despite being assessed as industrial, when located on agricultural land, the amount of property taxes is $58,967 lower than if the land was assessed in an industrial zone[40]. Note that building assessed value does not change.

TABLE 6: EXAMPLE OF PROPERTY TAXES FOR AN INDUSTRIAL BUILDING IN AN AGRICULTURAL AND INDUSTRIAL ZONE (2014)

INDUSTRIAL LAND USE	LAND ASSESSED VALUE	BUILDING SIZE (SQUARE FEET)	BUILDING ASSESSED VALUE	MILL RATE (CLASS 5)	PROPERTY TAX
Assessed for an Agricultural Zone	$ 775,000	50,000	$ 5.25M	14.65	$ 88,266
Assessed for an Industrial Zone	$ 4,800,000	50,000	$ 5.25M	14.65	$ 147,233

The method of assessing the value of ALR land for property classes other than farm means that ALR land assessed as residential, business or industrial are valued lower than properties of similar size and use in urban areas. The result is that similar non-farm businesses in a municipality are operating under different property tax structures, depending on whether they are located in the ALR or not. Ultimately the properties in the ALR receive a lower tax assessment and therefore pay lower taxes, even if there is no farming activity on the parcel, although the range of difference in the assessed value may vary depending on the location.

3.1 Option: Change the Method of Assessment for ALR Land

The option to consider with this farm property tax policy is whether to change the method for valuing ALR land when a property is not farmed. Currently there is a tax incentive to locate a residential home or non-farm business on agricultural land because the market value for the land, and the resulting taxes, are significantly lower. This situation creates inequity between comparable residential homes and similar businesses that pay different property taxes because one is located in the appropriately zoned area and the other is in the ALR.

One approach is to value all land in the ALR not classed farm as if it were located in the applicable zone within the Urban Containment Boundary. Therefore, agricultural land used strictly for residential purposes would have an assessed residential value similar to an area zoned for residential use. The same approach could apply to businesses that are not part of a farm operation, yet are located in the ALR. A slightly different approach is to value all agricultural land as residential, then let municipalities apply the appropriate tax rates for parcels that are farmed, or used for residential or commercial purposes.

The concern about changing this tax policy is that if agricultural land is valued for a use other than farming, it could be interpreted as no longer essential to the ALR. This could lead to potential requests to exclude non-farm parcels from the ALR. One option for addressing this risk could be to stipulate in legislation that tax policy is not justification for removing land from the ALR, but instead intended as an incentive to farm agricultural land or lease ALR land to a farmer.

When there is an economic advantage to locate non-farm uses in the ALR, the pressure to do so will continue. A new approach is to reform how ALR land is valued when not used for farming to discourage a proliferation of residential and other businesses locating on agricultural land in the Metro Vancouver region. Whether this policy requires a change in legislation or just a change in the way BC Assessment interprets the principle of highest and best use is not clear, but in either case, provincial support is required.

4. Assessment of Farm Buildings

How farm buildings are assessed is another important aspect of farm property tax. Buildings are improvements on the land and therefore are considered separately from land in tax policy[41]. A building is considered a farm building if the structure is located on land classified as a farm and used exclusively in the operation of a farm. All farm buildings are assessed at actual value and classified residential (Class 1)[42].

The main tax incentive for having a building assessed as a farm building is the tax exemption available for improvements on land classified as a farm (including the farm residence and outbuildings[43]). Farm buildings receive a tax exemption that is the greater of $50,000 or 87.5% of the aggregated assessed value[44]. This tax exemption on building improvements is provided to encourage capital investment in farm businesses.

It is important to note that some commercial buildings are an essential component of an economically viable farm business and therefore are appropriately assessed as farm buildings. Sometimes the use of a building is difficult to discern and therefore requires a definition in legislation. For example:

- Packing houses are a facility used for the cleaning, sorting, grading, packing or storage of qualifying agricultural products and can be assessed as a farm building under specific requirements[45]. More than 50% of the qualifying agricultural products cleaned, sorted, graded, packed or stored must be grown or raised on the farm. The major challenge in defining a packing house is that the amount of product is self-reported with no formalized accounting process.

- Processing facilities are defined as land and buildings used for processes other than "cleaning, sorting, grading, packing or storage". The assessed class will depend on what is being processed[46].

- Farm market buildings are assessed as a farm building when it is located on land that otherwise qualifies for farm classification and meets other criteria relating to the sources of qualifying agricultural products as well as manufactured derivatives of the farm's products[47].

- New regulations for Agri-tourism now permit a range of activities as long as the activity is carried out on land that is classified as farm under the Assessment Act including farm tours, festivals and other non-agriculture events such as weddings or concerts[48].

Commercial activity on agricultural land, not classified as farm, is mostly deemed 'Business, Other' (Class 6), including uses that don't qualify as a farm building such as:

- Bed and Breakfast (B&B) on farms are permitted uses and defined for assessment purposes as either residential (Class 1) or business (Class 6), depending on the number of units.

- Packing houses that do not meet the 50% qualifying products grown or raised on the farm;

- Processing facilities that are used for extracting, processing, manufacturing or storage of products other than food, non-alcoholic beverages or water; or

- Farm market buildings are assessed as commercial if used to sell alcoholic beverages, or if they sell a significant amount of non-farm merchandise.

BC Assessment staff determines when a building on agricultural land is used for farming purposes using the definitions outlined in the legislation. A change in property ownership creates conditions when a building on agricultural land is most susceptible to being assessed improperly. The ability of BC Assessment staff to identify any misalignment between the assessment of buildings and actual use can be challenging if they are not aware of changes in land use or new commercial business activities that are occurring on agricultural land.

4.1 Option: Notify BC Assessment of changes in the ALR

The option to consider with this policy is how to improve the assessment of buildings on agricultural land when changes in land use occur. BC Assessment staff conduct adequate scrutiny of buildings for assessment purposes but the administration can be more efficient if a more formalized notification process is developed with other agencies. The most important way to assist BC Assessment in determining when a building is no longer a farm building and becomes a non-farm use is to alert staff about changes in ownership or land use in the ALR.

The notification process could be improved in a number of ways, such as:

- The Agricultural Land Commission develops a formal process to notify BC Assessment when non-farm land use applications are approved[49].
- Municipal governments track non-farm business licenses in the ALR and either notify or respond to BC Assessment inquires in a timely way when new licenses are approved. Since most municipalities do not require farms to have business licenses, the volume of permits to monitor should be minimal.
- The Canadian Revenue Agency data is used to confirm the gross revenue levels of packing and processing facilities that are assessed as a farm.
- The public makes confidential inquiries about the assessment of buildings on agricultural land. These inquiries are often an important trigger for alerting BC Assessment staff about a change of farm activities.

Sharing information about what constitutes a farm building is important to ensure that improvements on agricultural land are properly assessed for tax purposes. The misappropriation of taxes based on inaccurate assessment can be substantial for municipalities because residential, industrial and business use and improvements generate more taxes than land classified as farm.

BC Assessment has adequate administrative processes in place and the capacity to monitor the use of buildings and improvements on land classified as a farm. However, improved communication and coordination among agencies can greatly increase the effectiveness of the assessment process and efficiencies in enforcing provincial legislation. The key is to ensure that buildings on agricultural land are appropriately assessed when changes in ownership or land use occur.

RECOMMENDATIONS

Local governments in the Metro Vancouver region and throughout BC are tasked with protecting agricultural land for the purpose of farming today and into the future. Farm property tax policy is an important financial lever to encourage farming activities that benefit society or discourage non-farm uses in the ALR. If adjusted, farm property tax policy can help secure land for agriculture that will in turn foster expanded farm business development and enable new farmers to access land through leasing agreements with other landowners.

Since the ALR was established in 1973, more tax benefits are being shifted to landowners using ALR land for purposes other than farming in Metro Vancouver. Farm property tax reform is necessary to maintain active farming on agricultural land and remove tax incentives that no longer support the public interest when financial benefits are attributed to private landowners who are not farming or are speculating on agricultural land.

There are also taxpayer equity issues to consider in ensuring that comparable residential and commercial businesses in a municipality are paying similar property taxes. Removing farm property tax benefits that are no longer used as intended is a valuable benefit to local governments because it helps expand agricultural businesses while discouraging inappropriate development in the ALR that adds costs to provide utility and other local government services beyond the region's Urban Containment Boundary.

There are four recommendations stemming from this review to encourage agricultural production while removing the financial incentive for non-farm uses of agricultural land. The recommendations are for the Province of BC to:

1. Eliminate the 50% School Tax exemption for properties classed as residential (Class 1) in the ALR. This change would also apply to regional district, transit and other agency fees.

2. a) Change the income threshold to achieve farm classification to a minimum of $3,500, regardless of farm size for the Metro Vancouver region, and ensure that the threshold is reassessed every five years and adjusted according to the rate of inflation and;

   b) Develop a two-tier farm classification benefits system that allocates only some tax benefits to farms with an income threshold of $3,500, while providing the full package of tax benefits to the more productive farms with an income threshold at $10,000. This would create an incentive for farms to reach the higher income threshold. Determining the appropriate allocation of benefits for a two tier system requires consultation with the agricultural community and agencies providing secondary benefits to properties with farm class.

3. Adjust the method for valuing agricultural land not used for farming to discourage further non-farm development in the ALR. The adjustment could consider valuing agricultural land not used for farming as if it was located in the applicable zone within the Urban Containment Boundary. Implementing this recommendation requires additional policy analysis and consultation with local governments and must ensure that any reform stipulates that tax policy is not justification for removing land from the ALR.

4. Encourage local governments and the Agricultural Land Commission to develop new protocols to enable BC Assessment to obtain timely information on changes in land use and new commercial business activities in the ALR to ensure an appropriate tax assessment of buildings and improvements.

FINAL COMMENTS

One reason farm property tax reform is difficult is because provincial legislation does not account for the unique situation of Metro Vancouver. The challenge is to ensure that BC's largest metropolitan region, with over half of the provincial population, can continue to protect Canada's most productive agricultural lands[50]. The implications of farm property tax policy in this metropolitan region are more intense than in rural areas of BC because of population growth, development pressure, and competition for land. It may be appropriate to only change legislation for the Metro Vancouver region.

It should also be noted that removing property tax benefits is challenging and may result in complaints by landowners affected by the changes. However, the decision not to reform farm property tax policy impacts residents within the Urban Containment Boundary, who are in effect subsidizing non-farm residential uses and commercial businesses in the ALR. The proposed changes are primarily about a tax shift that strives to rebalance private interests and public benefits.

Reforming farm property tax policy to encourage farming or leasing land to farmers is recommended to secure agricultural land for farming and encourage agriculture economic development in Metro Vancouver. The key objectives are to ensure that the societal benefits of tax exemptions, lower property assessments and farm class are attributed to farmers in this growing metropolitan region where there is significant competition for land. A multi-pronged approach to farm property tax reform will be most effective at both encouraging agricultural production and discouraging non-farm uses. Tax reform will send a clear signal that the tax benefits afforded to landowners in the ALR are intended only for actively farmed land.

END NOTES

1. The term agricultural land refers to land designated for farming such as the Agricultural Land Reserve (ALR). Most agricultural land in Metro Vancouver is in the ALR. Land that is farmed refers to properties that are classified as farm for assessment purposes, which does not always occur on agricultural land.

2. "Farming in Metro Vancouver Facts in Focus Policy Backgrounder", Metro Vancouver, page 7. A review of the applications submitted to the Agricultural Land Commission (ALC) in Metro Vancouver from 2006-2013 revealed that exclusions were only 9% of the ALC applications, in comparison to subdivisions at 29% of ALC applications.

3. "Metro Vancouver Regional Report (Agricultural Land Use Inventory Summer 2010-2011)", page 14.

4. Ibid, page 19, reveals that of the total 23,231 ha not used for farming, 11,123 ha is residential.

5. Ibid, page 19 shows that 67% of the total parcels surveyed in Metro Vancouver were not used for farming. In addition, there were 1,384 parcels leased to farmers to qualify as a farm for assessment purposes in 2012 (see endnote #6).

6. Farm Lease Agreements in Metro Vancouver. Regional Planning Information Bulletin, Metro Vancouver, February 2015.

7. The Urban Containment Boundary (UCB) is a land use designation in "Metro Vancouver 2040: Shaping our Future", the regional growth strategy. The UCB establishes a long-term area for urban development, reinforces the protection of agricultural, conservation and rural areas and provides predictability for locating urban uses, major regional transportation, utility and other infrastructure investments.

8. "Property Tax Scenario Analysis for Agricultural and Industrial Lands in the Metro Vancouver region", Colliers International, February 2013, documented how agricultural property taxes are calculated and applied under different scenarios and suggested some areas for further investigation.

9. "Farm Property Tax Investigation in the Metro Vancouver Region", KM Consulting, December 2014, analyzed the feasibility of selected policy options to increase the financial incentive to farm land designated for farming or decrease the financial incentives for non-farm uses on agricultural land.

10. Understanding Property Classes and Exemption BC Assessment.

11. "The Farm Tax Class Income Threshold Investigation", Upland Consulting, December 2015, provided a comprehensive analysis of the benefits and risks of increasing the farm class income thresholds in Metro Vancouver.

12. BC Assessment develops and maintains real property assessments throughout British Columbia in addition to providing real property information. The provincial government, through the Ministry of Community, Sport and Cultural Development, defines policy and creates legislation, while the role of BC Assessment is to implements the legislation.

13. The School Act Section 130 (2)(c). In 2011, another change was made to the School Act (Section 131.3) to allow properties with Farm class to get an additional 50% exemption through the Provincial Farm Land Tax Credit.

14. School Act, Section 131.

15. The term parcel is used in this paper, however, the technical term used by BC Assessment is actually 'folio', which is defined as "a collection of data, identified by a roll number that consists of ownership, actual value and other information required for assessment purposes. The data in a folio usually describes one parcel and any improvements on it. However, a folio may describe multiple parcels and their improvements, or a portion of a parcel and/or the improvements on such a parcel. Folio is synonymous with (Assessment) Roll Number".

16. As per the Agricultural Land Commission Act [SBC 2002] CHAPTER 36 Exceptions 23 (1), restrictions on the use of agricultural land do not apply to land that, on December 21, 1972, was by separate certificate of title issued under the Land Registry Act, R.S.B.C. 1960, c. 208, less than 2 acres in area.

17. Municipalities set the tax rate. In Metro Vancouver the 2015 school tax rate for residential properties ranged from 1.5474 to 2.0032 and the regional district tax rate ranged from .0539 to .0606.

18. In Metro Vancouver, regional district tax rates ranged from .0539-.0606; TransLink tax rates were consistent at .3173; and municipal finance authority tax rates ranged from 2.1872- 4.4713.

19. The number of properties held by the same owners when the School Act was passed in 1980 is unknown.

20. The Classification of Land as a Farm Regulation B.C. Reg. 411/95, made under the Assessment Act, enables land, upon application, to qualify for farm class for properties both within and outside the Agricultural Land Reserve.

21. Farm Tax Class Income Threshold, page 9. Also the Agricultural Land Reserve Use, Subdivision and Procedure Regulation (BC Reg. 171/2002), enables additional residences and agri-tourism activities for properties that are all, or part of a parcel, classified as farm under the Assessment Act.

22. "Property Tax Scenario Analysis for Agricultural and Industrial Lands in the Metro Vancouver Region", Colliers International, February 2013, pages 44 and 49.

23. Landowners can achieve farm classification by leasing their land to farmers that can meet the BC Assessment income threshold requirements. This policy benefits agriculture because it can increase the supply of available farmland, however, there is no requirement in the legislation for landowners to offer a lease greater than one year, thereby reducing incentives for farmers to invest in building, irrigation or drainage infrastructure that is often necessary to improve land productivity or the economic viability of the farm business.

24. The ratio of 0.00 to 1.249 means that farms were reporting 0% to 124.9% of the required threshold. For example, an income ratio of 1.0 means the farm is reporting a gross income of $2,500, while an income ratio of 124.9% means the gross farm income is $3,122. These numbers may be an under-estimation of income levels because established farms that consistently surpass the income threshold levels are monitored much less frequently than farms near the threshold level, which are required to submit annual documentation of their income.

25. Farms with an income ratio of >2 are usually required to confirm income on a 5-8 year basis, as it is assumed that income levels are consistent from year to year.

26. "The Farm Tax Class Income Threshold Investigation", Upland Consulting, December 2015, page 20. The data is from most recent reporting year, which varies due to the explanation provided in endnote #22.

27. Ibid, page 24-25.

28. Farm Assessment Review Panel 2009 Report, Ministry of Community and Rural Development (July 31, 2009) was the first public consultation on farm property tax assessment since The Classification of Land as a Farm Regulation came into effect in 1995. Many of the final recommendations were implemented except for: establishing a single threshold at a minimum of $3,500 annual gross income for all farm properties; analyze the impact and review every five years; and reporting of gross farm income as reported to the Canadian Revenue Agency.

29. BC Assessment requires a business plan and will allow up to six years for new farms to reach the appropriate farm income threshold level. The number of years depends on the crop type.

30. An Estimate of the Public Amenity Benefits and Ecological Goods Provided by Farms in Metro Vancouver, BC Ministry of Agriculture and Lands, Public Policy Program at Simon Fraser University and the Fraser Basin Council (2009).

31. Urban Farming Guidebook: Planning for the Business of Growing Food in BC's Towns and Cities, EcoDesign Resource Society (2014).

32. Outside the ALR, to be classified as a farm the leased land must: (a) make a reasonable contribution to the farm operation, and (b) be 0.8 ha or greater except if the land is in an agricultural land reserve, and the land is used for a qualifying agricultural use as per The Classification of Land as a Farm Regulation, section 7(3). BC Assessment's approach to section 7(3) is to interpret "the leased land" as referring to all the land covered under a single lease agreement (same landowner), even if it's made up of multiple parcels.

33. The City of Vancouver staff report on "Amendments to Zoning and Development By-law and Business License By-law Regarding Urban Farms" was presented to Vancouver City Council on February 23, 2016.

34. "Guide to Implementing the Urban Agriculture Incentive Zone Act" produced by the University of California, Agriculture and Natural Resources Cooperative Extension.

35. Assessment Act section 2.2 explains how agricultural land is assessed and valued.

36. BC Regulation 276/84 dictates land values for the farm land regulation. Land is rated based on soil capability classes 1 to 7 of the "Soil Capability Classification for Agriculture" as per The Land Inventory Report No. 2-1965 published by the Department of Forestry, Canada. "Property Tax Scenario Analysis for Agricultural and Industrial Lands in the Metro Vancouver region", page 21, provides an example of the taxes for a 20 acre farm with class 1 soils and class 4 soils, at $6,850 vs. $5,000 respectively.

37. Highest and best use is defined as ‘reasonably probable and legal use of vacant land or improved property that is physically possible, legally permissible, appropriately supported, financially feasible, and that results in the highest and best use’. Appraisal of Real Estate, 2nd Canadian Edition, 2002. A property’s highest and best use is constrained by use restrictions and local bylaws.

38. “Farm Property Tax Investigation in the Metro Vancouver Region”, page 20.

39. Property inquiry available on the BC Assessment website for 22136 61 Ave and 20319 82 Ave in Langley at a 2014 residential tax rate of 3.23070.

40. “Property Tax Scenario Analysis for Agricultural and Industrial Lands in the Metro Vancouver region”, page 84.

41. Buildings and other structures on agricultural land are referred to as “improvements” by BC Assessment and these improvements are classified separately from the land and assessed at market value according to their use.

42. Within the ALR, all residential buildings, including farmers’ homes, are designated residential Class 1, while outbuildings are classified as either residential, industrial or commercial, depending on how they are used.

43. The only exemption on farm dwellings is under the Taxation (Rural Area) Act. Within municipalities they are fully taxable.

44. The farm buildings are eligible for property tax exemptions under the following legislation: the School Act, section 131(4)(b); Community Charter, section 220(1)(n); Vancouver Charter, section 396(1)(h); and the Taxation (Rural Area) Act, section 15(1)(f). If aggregate value is under $50,000 then the whole value is exempt.

45. A “packing house” means a facility used for the cleaning, sorting, grading, packing or storage of qualifying agricultural products [Classification of Land as a Farm Regulation, sections 1 and 9]. Land, but not improvements, used for a packing house as part of a farm operation will be classified as a farm if: (a) any authority having jurisdiction over the use of that land has regulated the use of that land to permit the growing and raising of crops, and (b) more than 50% of the qualifying agricultural products that are cleaned, sorted, graded, packed or stored in the packing house are grown or raised on that farm operation. If the land meets this definition, the packing house itself is assessed as a farm building.

46. Processing facilities will either be assessed as Light Industry (Class 5) or else default to Business and Other (Class 6), depending on what is being processed. [Prescribed Classes of Property Regulation, sections 5 and 6]. The exact nature of each processing operation determines the classification. Class 6 property shall include all land and improvements not included in Classes 1 to 5 and 7 to 9. Class 5 includes extracting, processing, manufacturing, transportation or storage of products, except the extracting, processing, manufacturing or storage of food, non-alcoholic beverages or water, which is then defaulted to Class 6.

47. Marketing is not explicitly included in the definition of “qualifying agricultural use” in The Classification of Land as a Farm Regulation, B.C. Reg. 411/95. However, in addition to being located on land classified as a farm, the improvements should be assessed as a farm building, and only if more than 90% of gross sales are farm products and more than 50% percent of the farm products are products of the subject farm. If non-farm merchandise makes up more than 10% of gross sales, the market is classed as business and other (Class 6).

48. Order in Council No 602 approved on July 29, 2016 amends the definition of Agri-tourism in the Agricultural Land Reserve Use, Subdivision and Procedure Regulation. B.C. Reg. 171/2002.

49. Currently BC Assessment has to review each application to determine if it is relevant to the building assessment. A similar process could involve sharing parcel identifier numbers that are undergoing building or land use changes.

50. Metro Vancouver farms have the highest farm cash receipts per hectare on agricultural land ($17,961) in Canada (Statistics Canada, Census of Agriculture 2011).

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