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> US NG PROPERTY TAX REFORM TO SUPPORT AGR CULTURE PRODUCT ON (2021)

## **USING PROPERTY TAX REFORM TO SUPPORT AGRICULTURE PRODUCTION (2021)**

2021    Finance & Taxation    Natural Resources

The Agricultural Land Reserve (ALR) was designed to protect farmland; only 5% of BC is in the ALR, and only 1% of all of BC is prime farmland – much of which is close to urban centres. Non-farm residential and non-farm commercial uses are becoming more numerous and take advantage of tax breaks designed to foster farm production without meaningfully contributing to BC's overall Farm Cash Receipts (FCR). Property tax benefits for agricultural land must be reformed to ensure that the recipients are farmers, not speculators.

### **Background**

The Globe & Mail (2016) published an investigative report illustrating the means by which investors and speculators are purchasing agricultural land and removing those acres from production. In their research, they found that 60% of the purchases of agriculture properties in the Lower Mainland during the period studied were by speculators.<sup>1</sup> The article described how the tax benefits designed for farmers, were instead, encouraging land speculation.

Metro Vancouver produced a White Paper in 2016<sup>2</sup> outlining the challenges of protecting agricultural land in the region – despite the best intentions of municipal governments. Strikingly, in 2011, the Ministry of Agriculture found that only half of the 60,893 hectares in the ALR was actively farmed<sup>3</sup>. The remaining half of the ALR in the Lower Mainland was not actively farmed including parcels that remain fallow. The remaining farmland under production generated 26% of BC's gross annual farm receipts, on only 1.5% of

the province's agricultural land in 2016<sup>4</sup>. In 2016, Farm Cash Receipts (FCR) for all of BC was \$3 billion, down 2.5% from 2015. This 0.6% share of the provincial GDP was produced on less than 3% of provincial land.<sup>5</sup>

The Agricultural Land Reserve is valuable for its designated purpose and needs to be protected for farm use. However, as demonstrated by Metro Vancouver's White Paper and the Globe & Mail report, the measures originally designed to encourage farming, have become incentives for non-farmer owners to own land and live in the ALR. This situation we believe, although prominent in the Lower Mainland, may also make the ALR vulnerable to non-farm ownership and speculation across the province.

Tax breaks for ALR properties were originally developed to offset the strict land - use limitations that owners must abide by - such as not being able to sub-divide or develop the land into residential or industrial units. These restrictions when originally applied decreased the land value substantially when compared with land now encompassed by the Urban Containment Boundary in Metro Vancouver (Metro Vancouver 2040: Shaping our Future) for the Lower Mainland.

As described in Metro's White Paper, there are four property taxes that could be reformed to ensure that tax policy meets the originally intent of the agricultural land protection measures.

### **1. School Tax Exemption**

All land in the ALR, regardless of classification, receives a 50% exemption on School taxes. The 50% exemption also includes other taxes in Metro Vancouver such as TransLink, Hospitals, etc. An analysis completed by Metro Vancouver found that properties not used for farming accounted for 84% of the total amount of school tax exemptions for the region, despite accounting for only 59% of parcels. In particular, small properties (under two acres), not necessarily subject to ALR restrictions, received school tax exemptions. Metro's conclusion is that, "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."<sup>6</sup>

***Metro Vancouver Recommendation 1:*** remove residential classification from the School Act (Section 30)<sup>7</sup>, and amend so that only land classified as farm receives the tax exemption benefit.

## **2. Land Classification**

Land classed as farm for assessment purposes, commonly referred to as ‘farm class,’ is defined by the type of primary agriculture and gross income for production on that land. The three farm sizes and the minimum gross farm receipts are:

- Less than 2 acres - \$10,000
  - 2 to 10 acres - \$2,500
  - Greater than 10 acres - \$2,500 plus 5% of the actual value of the area in excess of 4 hectares

Owners can farm or lease portions of their land to farmers to meet the minimum requirements for farm class and qualify for a significant reduction in property tax, while paying residential tax rates on a substantially smaller portion of the property. However, these leases are sometimes as short as one year, which does not encourage investment in long term agricultural production or the necessary equipment and infrastructure to build a profitable business. As of 2016, 24% of the parcels in Metro Vancouver just meet the bare minimum income requirements for farm class.

***Metro Vancouver Recommendation 2:*** The minimum threshold for farm class should be changed across all parcel sizes to \$3,500, to accommodate for small, active hobby farms currently required to earn over \$10,000 in gross receipts. In addition, there should be a two-tier system where farms that meet a higher threshold of gross farm receipts (i.e. \$10,000) receive greater benefits, thereby encouraging the small farms to expand.

## **3. Assessed Value of Agricultural Land**

Properties with farm class (Class 9 properties) are assessed based on the quality of the soil: the better the soil, the higher the value. If not actively farmed, the land is assessed by the market value by its “highest and best use” in comparison with other rural properties, those with poorer soils or other non-farm usage, for example, within the ALR. The non-farmed properties are

subsequently valued by the “market comparison” at a lower rate than a producing farm with good soil, which results in lower tax assessments, and therefore lower property taxes than comparable residential and commercial uses in urban areas. Subsequently, it is a strong financial incentive to locate non-farm activities on agricultural land.

***Metro Vancouver Recommendation 3:*** Reconsider how non-farm activities located in the ALR are assessed. The purpose of changing the assessment method is to discourage non-farm land uses not part of a farm operation from locating on the cheaper farmland.

#### **4. Assessment of Farm Buildings**

There are numerous acceptable uses for buildings on farms: packing houses, processing facilities, market buildings, and related uses. These are assessed as per their use for the farm operation as per definitions in the legislation used by BC Assessment. The challenge arises with a change of ownership, which may lead to a change of building function. Assessors may not be aware of changes in function causing the assessments to become “misaligned.”

***Metro Vancouver Recommendation 4:*** Ensure that provincial agencies involved in the assessment have adequate process and resources to ensure the correct assessment of buildings in the ALR.

#### **Opportunity for Change**

In Budget 2018, the Province increased funding for the agrifood sector, supporting a variety of initiatives such as Grow BC, Feed BC, and Buy BC. Further, the provincial government has put into place an advisory committee of 9 members.<sup>8</sup> The Discussion Paper: Revitalizing the Agricultural Land Reserve and the Agricultural Land Commission, outlines the committee’s objectives and the themes they anticipate reviewing. Of those 10 themes, none specifically considers property tax reform, though several discuss residential and non-permitted activities.

One additional issue requires consideration – that is encouraging investment in farmland and the use of bare land trusts to avoid the foreign buyer tax. The Globe & Mail article investigating mega-mansions and speculators, found that property would be purchased by a numbered company, then buyer purchased shares and ownership was transferred without transfer taxes or

foreign buyer tax levy. Auditing and/or ensuring that bare land trust ownership is public information may catch those using the cheaper farmland as an investment rather than for agricultural production.

The Provincial Government has struck an Agriculture Advisory Committee to review the Agriculture Land Reserve.<sup>9</sup> Portions of the Metro Vancouver recommendations are included in the government's discussion paper for the review committee. Although there is opportunity to provide comment, there is need to ensure that tax reform is focused and effective. Further, given the impacts on farms and the ability of farmers to access quality farm land, the government needs to:

- Reconsider how non-farm activities are assessed on agriculture land;
- Ensure that provincial agencies involved in the assessment process have adequate process and resources to correctly assess buildings in the ALR; and
- As previously mentioned, BC's Farm Cash Receipts dropped 2.5% between 2015 and 2016. While there are numerous factors that could contribute to this, not farming over 50% of the Metro Vancouver's ALT would be impactful. Those who are not using farmland for its intended purposes currently are doing so because it is easy and cheap to own land in the ALR for non-farm uses or land speculation. Encouraging production and discouraging undesirable land use in the ALR, can be done simply and effectively by reforming tax policy and using other policy tools to ensure farmers benefit and speculators don't.

## **THE CHAMBER RECOMMENDS**

That the Provincial Government:

1. Reform the school tax exemption to apply strictly to land classified as farm, and remove residential classification from the School Act (Section 30).
2. Change the minimum farm receipt threshold across all parcels, regardless of size, to \$3,500; and create a tier system where farms that

meet a higher threshold of gross farm receipts receive greater tax benefits.

3. Audit and/or make public the ownership of Bare Land Trust ownership of ALR properties in British Columbia.

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<sup>1</sup> Globe and Mail. On BC's farmland, mega-mansions and speculators reap the rewards of lucrative tax breaks, [www.theglobeandmail.com/news/investigations/farmland-and-real-estate-in-british-columbia/article32923810/](http://www.theglobeandmail.com/news/investigations/farmland-and-real-estate-in-british-columbia/article32923810/), (<http://www.theglobeandmail.com/news/investigations/farmland-and-real-estate-in-british-columbia/article32923810/>) November 18, 2016, updated November 12, 2017.

<sup>2</sup> Encouraging Agricultural Production through Farm Property Tax Reform in Metro Vancouver, 2016 <http://www.metrovancouver.org/services/regional-planning/agriculture/resources/Pages/default.aspx> (<http://www.metrovancouver.org/services/regional-planning/agriculture/resources/Pages/default.aspx>). <sup>3</sup> The Ministry of Agriculture will be releasing updated figures shortly.

<sup>4</sup> Agriculture in Metro Vancouver: Results from the 2016 Census of Agriculture <http://www.metrovancouver.org/services/regional-planning/agriculture/Pages/default.aspx> (<http://www.metrovancouver.org/services/regional-planning/agriculture/Pages/default.aspx>).

<sup>5</sup> Sector Snapshot for 2016 <https://www2.gov.bc.ca/gov/content/industry/agriculture-seafood/statistics/industry-and-sector-profiles> (<https://www2.gov.bc.ca/gov/content/industry/agriculture-seafood/statistics/industry-and-sector-profiles>) profiles (<https://www2.gov.bc.ca/gov/content/industry/agriculture-seafood/statistics/industry-and-sector-profiles>).

<sup>6</sup> Encouraging Agricultural Production through Farm Property Tax Reform in Metro Vancouver, 2016, p.6.

<http://www.metrovancouver.org/services/regional-planning/agriculture/resources/Pages/default.aspx>  
(<http://www.metrovancouver.org/services/regional-planning/agriculture/resources/Pages/default.aspx>).

<sup>7</sup>[https://www.bclaws.gov.bc.ca/civix/document/id/complete/statreg/96412\\_09](https://www.bclaws.gov.bc.ca/civix/document/id/complete/statreg/96412_09)  
([https://www.bclaws.gov.bc.ca/civix/document/id/complete/statreg/96412\\_09](https://www.bclaws.gov.bc.ca/civix/document/id/complete/statreg/96412_09)).

<sup>8</sup> Ministry of Agriculture, consultation

<https://engage.gov.bc.ca/agriculturallandreserve/>  
(<https://engage.gov.bc.ca/agriculturallandreserve/>).

<sup>9</sup><https://engage.gov.bc.ca/govtogetherbc/consultation/agricultural-land-reserve/>  
(<https://engage.gov.bc.ca/govtogetherbc/consultation/agricultural-land-reserve/>).

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