

MGA Review Discussion Paper

Supplementary and Progressive Assessment

This technical document is part of a series of draft discussion papers created by Municipal Affairs staff and stakeholders to prepare for the Municipal Government Act Review. It does not reflect existing or potential Government of Alberta policy directions. This document is the result of a careful review of what is currently included in the Municipal Government Act (MGA) and regulations, definitions of terms and processes, changes requested by stakeholders over the last 18 years, some highlights from other jurisdictions, and identification of potential topics for discussion during the MGA Review. This information will be used to prepare consultation materials as the MGA Review proceeds.

These discussion papers have been reviewed and approved by the MGA Stakeholder Advisory Committee, comprised of representatives from major stakeholder organizations: Alberta Association of Municipal and Counties, Alberta Association of Urban Municipalities, Alberta Rural Municipal Administrators Association, Alberta Chambers of Commerce, City of Calgary, City of Edmonton, and Local Government Association of Alberta.

The Government of Alberta is asking all Albertans to directly contribute to the MGA Review during online consultation in late 2013 and consultation sessions throughout Alberta in early 2014. This technical document is not intended for gathering stakeholder feedback, but to generate thought and discussion to prepare for the upcoming consultation. Public engagement materials will be available in early 2014. To learn more about how you can join the discussion on how we can build better communities, please visit mqareview.alberta.ca/get-involved.

Preamble

The *Municipal Government Act (MGA)* provides the legislative framework to guide the operations of municipalities in Alberta. The current *MGA* empowers municipalities with the authority and flexibility to provide services in the best interests of the community. The *MGA* Review will proceed along three major themes: *governance and administration*; *assessment and taxation*; and *planning and development*.

This paper is one of 12 discussion papers exploring aspects related to the *assessment and taxation* theme. Property tax valuation systems should be designed to maximize equity among property taxpayers and visibility or openness, while minimizing administrative complexity and confusion¹. Alberta's property assessment and taxation framework must be considered with the following principles in mind:

- Clarity
- Fairness
- Efficiency
- Predictability
- Stability
- Transparency

This paper focuses on market value assessment and administration as outlined in the *MGA* and its attendant regulations. Below is a list of the 12 papers that relate to the *assessment and taxation* theme.

- Market Value Assessment and Administration
- Linear Property Assessment
- Machinery and Equipment Assessment
- Farm Property Assessment
- Railway Property Assessment
- Airport Property Assessment
- Supplementary and Progressive Assessment
- Equalized Assessment
- Taxation
- Exemptions and Other Special Tax Treatment
- Assessment Complaints and Appeals
- Municipal Revenue Sources

¹ International Association of Assessing Officers (IAAO). *Standard on Property Tax Policy*. Kansas City: IAAO, 2010.

Supplementary and Progressive Assessment



In Alberta, property assessments are prepared annually and based on the characteristics and physical condition of the property on December 31. Progressive and supplementary assessments allow municipalities to prepare assessments on partially complete (progressive) properties and properties completed after December 31 (supplementary) during the tax year.

Progressive Assessment

If a property is under construction during the tax year, an assessment is based on the portion of property that is complete as of December 31. If construction extends over multiple years, the assessment is based on the portion that is complete as of the end of that year. This is known as progressive assessment. Progressive assessments are prepared for residential and commercial property but not for linear or machinery and equipment property (including associated building and structures). If the property under construction is completed during the tax year, the municipality may prepare a supplementary assessment.

Supplementary Assessment

If a property is completed after December 31 during the tax year, a supplementary assessment may be prepared for all improvements (newly completed buildings, complete or operational machinery & equipment, and designated manufactured homes), except for linear property². Supplementary assessments are not mandatory, but if a municipality chooses to prepare a supplementary assessment they must pass a bylaw that allows it to assess improvements added to land after the December 31 condition date. Property and business taxes are then imposed on those properties for the remaining portion of the current tax year. To do this, the assessor for the municipality must determine the value of the new improvements added since December 31. This assessed value is then added to the supplementary assessment roll and taxed for the remainder of the tax year at a prorated amount.

² The Linear Property Assessment Discussion Paper will also consider supplementary and progressive assessments for linear property.

The following table illustrates an example of the typical progressive and supplementary assessment process for the 2013 tax year. Assumptions:

1. Property is partially constructed and progressively assessed at \$250,000 on December 31, 2012 for the following tax year – January 1, 2013 to December 31, 2013.
2. Property is complete on May 1, 2013 and a supplementary assessment is prepared for \$150,000 for a total assessed value of \$400,000.
3. Property taxes are due on October 31, 2013.

Table 1: Progressive and Supplementary Assessment Comparison

	December 31, 2012	May 1, 2013	October 31, 2013
Annual (progressive) Assessment	\$250,000	\$250,000	\$250,000
Supplementary Assessment	\$0	\$150,000	\$150,000
Taxes Payable	\$0	\$0	\$250,000 x tax rate x 12 months \$150,000 x tax rate x 8 months

Discussion Points

Below are some discussion topics and questions identified through a review of requested amendments, cross jurisdictional research and issues raised by stakeholders.

1. Supplementary assessments on land

Background

Currently, supplementary assessments may only be prepared for improvements (new buildings, machinery & equipment³, and designated manufactured homes). Sometimes, land use designations change during the tax year, and these planning decisions may result in an increase in value to the land. However, municipalities may not prepare supplementary assessments on land, and as a result, are unable to benefit from the tax revenue from the increase in land values.

Cross-jurisdictional Research

- In Ontario, a supplementary assessment may be added to a tax roll by the clerk of a municipality or by the Minister for lands in non-municipal territory. Supplementary assessments may be made if an increase in the value of a property occurs resulting from physical changes to a property, or the classification of the land.
- In British Columbia, if an assessor finds an error that a property liable for assessment was not on the assessment roll or was assessed for less than it should have been on the assessment roll, the assessor must assess the property on a supplementary roll.
- Manitoba and Saskatchewan prepare supplementary assessment on land.

Stakeholder and Legislative Amendment Requests

- Municipal stakeholders have requested that the supplementary assessment provision in the *MGA* be amended to allow a municipality to prepare supplementary assessments on lands where a change in land use designation results in a change in value.

2. Supplementary assessments on linear property

Background

Under the *MGA*, supplementary assessment cannot be prepared for linear properties. Currently, municipalities are unable to realize the tax revenue from linear properties that are complete during the tax year until the following year's annual assessment and tax cycle.

Cross-jurisdictional Research

- In Saskatchewan, a supplementary assessment is prepared if it is discovered that the assessed value of a property is different from the value entered onto the annual assessment roll due to destruction or damage to the property; the addition, removal, alteration or demolition of an improvement; or a change in the use of the property.

³ The Machinery and Equipment Property Assessment Discussion Paper also considers supplementary assessments for Machinery and Equipment.

Stakeholder and Legislative Amendment Requests

- Municipal stakeholders have requested the designated linear assessor have the ability to prepare supplementary assessments for partially complete linear properties.
- Industry stakeholders maintain that assessment on linear property should not be prepared until the property is fully operational.

3. Progressive assessment for linear and machinery and equipment properties

Background

Under the *MGA*, assessments may be prepared for partially complete residential and commercial improvements. This is known as a progressive assessment. Currently, municipalities do not receive tax revenue from linear and machinery and equipment properties (including associated buildings and structures) until they are complete or operational and sometimes these improvements take multiple years to complete. This also includes and building or structures that house machinery and equipment.

Cross-jurisdictional Research

- In British Columbia, if a linear property is partially complete at the time the assessment is prepared, an assessment is prepared for that portion of the property only. An assessment is not prepared if the property becomes complete after that time. The remaining portion is carried forward to the next assessment year.
- In Newfoundland, an assessor may prepare a supplementary assessment for any property that has changed in value due to alterations to the property; new or removed structures or improvements; a change in use or taxation status has occurred; or the property had been from the assessment roll.

Stakeholder and Legislative Amendment Requests

- Municipal stakeholders have requested the ability to prepare progressive assessments for partially complete linear and machinery and equipment properties.
- Industry stakeholders maintain that partial assessments are unfair as the properties are not operational at the time of assessment and revenue is not being received from those properties.

Discussion Questions



1. What aspects, if any, of the supplementary assessment process need improvement?
2. What properties should be subject to supplementary assessments?
 - a. Should municipalities have the ability to prepare supplementary assessments for land on which a change in land use designation results in a change in value? Why or why not?
 - b. Should supplementary assessments be prepared on linear properties? Why or why not?
3. What properties should be subject to a progressive assessment?
 - a. Should progressive assessments prepared on partially complete linear and machinery and equipment properties? Why or why not?
 - b. If so, at what intervals during the tax year?

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