

Fair Market Value of Land with Industrial Improvements

Property Transfer Tax Act

This bulletin outlines how the *Property Transfer Tax Act* determines the fair market value of land in specific circumstances, if that land has industrial improvements located on it.

The Act provides two ways for a taxpayer to determine the fair market value of the land where specific circumstances exist. The BC Assessment value may be used, or a value established by a professional appraiser may be used provided certain conditions are met.

Table of Contents

Legislative History 1

Methods for Determining Fair Market Value 2

Legislative History

Provisions in the *Miscellaneous Statutes Amendment Act*, 1997 (Bill 22) amended the Act to clarify how fair market value of a property will be determined where land has industrial improvements located on it.

Section 1 of the Act includes a definition of industrial improvements which is an industrial improvement as defined in section 20(1) of the *Assessment Act*. Industrial properties are those identified as Class 4 in the Prescribed Classes of Property Regulation of the *Assessment Act*.

Section 1.1 of the Act states that where land is being transferred either from the provincial government, or between associated corporations, and there are industrial improvements on that land, determination of the fair market value of the land transferred must follow the remaining provisions in the section. Associated corporations under this section are companies that are associated under section 256 of the *Income Tax Act (Canada)*.

Methods for Determining Fair Market Value

Where the above qualifications are met, there are two ways to value the property. The taxpayer may either:

1. accept BC Assessment's value of the property as its fair market value, or
2. at their own expense, have a professional appraiser determine the property's fair market value. This appraiser would have to use accepted appraisal techniques and methods to qualify under this section.

Professional Appraisal

If the taxpayer chooses to have an appraisal done at their own expense to determine the fair market value of the property, the Act places limits on who may do the appraisal and how that appraisal must be conducted.

Who may conduct the appraisal?

The appraisal may be done by either:

1. a person designated as Accredited Appraiser Canadian Institute by the Appraisal Institute of Canada, **or**
2. a person qualified as an appraiser by the Real Estate Institute of British Columbia.

How is the appraisal to be conducted?

For the appraisal to qualify under section 1.1, the fair market value must be based on the following principles:

1. the value is to be the value of the unencumbered fee simple interest as of the date that there is an application to register the taxable transaction,
2. the valuation must conform to the Uniform Standards of Professional Appraisal Practice and the Canadian Supplement,
3. the valuation must be the price that the land would probably bring on the open market with all the conditions necessary for a fair sale, and

4. the valuation must represent the normal consideration for the land if it was sold without special or creative financing or sales concessions granted to anyone connected to the sale.

The valuation must be based on the following assumptions:

- a. the buyer and seller are acting prudently and knowledgeably,
- b. the buyer and seller are both motivated to transact,
- c. a reasonable time is allowed for the land to be on the open market,
- d. there is more than one willing purchaser, and
- e. properties or supplies which produce input materials for a facility located on the land continue to supply inputs for their natural life span.

Need more info?

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