



Corporate NO: R049

Report COUNCIL DATE: March 12, 2001

REGULAR COUNCIL

TO: Mayor & Council **DATE: March 7, 2001**

FROM: Len Garis, Acting Fire Chief
FILE: 0043-001

SUBJECT: FIRE SERVICES ACT – INSURANCE PREMIUM TAX

RECOMMENDATION

That Council lobby the B.C. Government to have the 4% Insurance Premium Tax redirected to the City to offset Fire Service expenses by forwarding the following resolution to Lower Mainland Municipal Association and Union of British Columbia Municipalities for consideration:

“WHEREAS the cost of providing Fire Services has increased substantially over the past few years; and

AND WHEREAS the Insurance Industry is receiving benefit from Fire Service in the form of decreased risk of property damage by fire;

AND WHEREAS the Provincial Government collects annually 4% of premiums on all property insurance policies issued;

AND WHEREAS revenue collected under the Insurance Premium Tax Act has been paid into the Consolidated Revenue Fund;

AND WHEREAS this tax was originally imposed to cover the costs (salaries and expenses) of administering the Fire Services Act;

THEREFORE BE IT RESOLVED that the 4% Insurance Premium Tax be redirected to Cities and Municipalities to offset the costs incurred providing Fire Services.

FURTHER THAT this resolution be forwarded to the Lower Mainland Municipal Association and the Union of British Columbia Municipalities for consideration, as well as all BC municipalities, BC Fire Chiefs, GVRD Fire Chiefs, and the International Association of Fire Fighters."

EXECUTIVE SUMMARY

There is a tax on insurance for any structure that may present a fire hazard in British Columbia (namely any building requiring fire insurance, i.e. every single building in the province.) This tax is collected on all property insurance premiums at 4%. Revenue goes into the Consolidated Revenue Fund, distribution of which is controlled by the Provincial Government and is allocated by the budget process.

The original intent of this tax was to offset the costs of administering the *Fire Marshal Act* of 1921, later the *Fire Services Act*. Amendments in 1982 deleted this intention and brought the collection procedure in line with the *Insurance Premium Tax Act*. In 2000, amendments deleted all reference to a tax on insurance premiums from the *Fire Services Act*, and increased collection under the *Insurance Premium Tax Act* by the equivalent percentage. The revenue from this tax is considerable, for example in 1999, \$1.46 billion was paid in insurance premiums to the insurance industry, which translates into \$58.4 million collected in tax revenue by the Provincial Government.

This tax is collected from a defined group of people for a defined purpose, so one would expect the two to be connected. The gain the insurance industry receives from fire protection in the form of decreased liability appears to be a “free ride”, especially considering the increased cost of proactive fire protection in BC and shrinking municipal budgets. Therefore, it is reasonable to distribute this tax to the municipalities currently providing services under the *Fire Services Act*, based on value of insured property in each municipality's jurisdiction.

BACKGROUND & DISCUSSION

This tax was first imposed in 1921 under the *Fire Marshal Act*¹ and covered all types (both property and automobile) of fire insurance. To summarize the relevant section, the tax was imposed to offset the costs (namely salaries and expenses) of administering the *Fire Marshal Act*. The tax was to be collected by the company issuing the policy, and paid to the Superintendent on or before March 1st each year. The Superintendent then paid the tax into the Provincial Treasury but was required to keep an account both revenues and disbursement to assist the Lieutenant Governor in Council in fixing the amount of the tax, which at that time was not to exceed one-third of one percent of all premiums or assessments. Salaries and expenses were then to be paid by the Minister of Finance out of the Consolidated Revenue Fund.

The descendants of the Act (namely the *Fire Services Act*, in all its incarnations) kept the wording and intent of this tax essentially the same. The amount was to be fixed by the Lieutenant Governor as he saw fit to cover costs, and could be raised should collection be shown not to cover costs.

However, it should be noted that funding has never been decided by the Act, but rather by budget allocation. Sections 48, 49, 50, and 51 of the *Fire Services Act*² did not change substantially until July 23, 1982, under the *Fire Services Amendment Act, 1982*³. This document completely severs any link between the collection of the tax and disbursement to the Fire

Commissioner. It also deletes tax on automobile fire insurance, and imposes the tax on the entire premium or assessment for the property, not just the fire insurance portion. The section allowing for an increase in the tax, should the costs of administering the *Fire Services Act* exceed the tax collected, has been deleted. The act puts no restriction at all on the amount of the tax. On January 1, 2000, all reference to a tax on insurance premiums was deleted from the *Fire Services Act*, and collection under the *Insurance Premium Tax Act* was increased proportionately. This tax currently stands at 4%.

The second reading of the *Fire Services Amendment Act* occurred July 14, 1982 moved by the Hon Mr. Williams. In presenting the bill, his main points are:

1. that it is extremely difficult to determine the portion of the property insurance specific to fire coverage; so the tax will now be assessed on the entire insurance premium;
2. once the new reporting procedures have been set into action by this legislation, the rate can be adjusted to reflect the true cost of fire protection;
3. there is a direct connection between the collection of the tax and its use to support the Fire Commissioners Office.

These points show that the purpose of the amendment was not to divorce the tax from its originally intended use, but rather to ease its collection.

It seems clear from the original imposition of the tax that it was collected solely to pay for expenses of administering the *Fire Marshal Act*, later *Fire Services Act*. The fact that collection and disbursement of the tax was delegated to the Province using their vehicles for doing so (the Superintendent and the Consolidated Revenue Fund) seems to be the point that has caused confusion.

CONCLUSION

It is apparent that the tax was originally intended to fund fire services. Therefore, insurance tax should in its entirety be directed to municipalities and cities that provide fire protection, and not be subject to the normal budget allocation.

Len Garis
Acting Fire Chief