



Meeting Date: March 10, 2021

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Report No: CPS-07-2021

Subject: 2021 Tax Policies

Recommendation:

THAT Report CPS-07-2021 regarding 2021 Tax Policies be received for information.

Purpose:

The purpose of this report is to provide Council information with respect to the Tax Policy decisions that are available for 2021. Attached is a letter from the Ministry of Finance outlining property tax and assessment measures announced in the 2020 Ontario Budget, released November 5, 2020.

Background:

The Municipal Act sets out, in a prescriptive manner, the rules governing property taxation in Ontario. These rules include establishing tax ratios on an annual basis by an upper tier municipality. Tax ratios determine the municipal tax burden for the various property classes relative to that of the residential class. The residential class is the “benchmark” class with an established tax ratio of 1.00 and tax ratios for all other property classes are expressed in relation to the residential ratio. Tax ratios established by the County also apply to the Area Municipalities.

The Province has been conducting a review of the property tax and assessment system in Ontario. While this process is still ongoing there were certain measures already announced in the 2020 Ontario Budget to benefit businesses in the Province.

Reduction in Business Education Tax (BET)

During the above mentioned Review by the Ontario Government Municipalities and business stakeholders noted concerns that there was a large variant in Business Education Tax (BET) rates throughout the Province.

The Government has agreed with these comments and has committed in 2021 to reduce all BET rates to 0.88 percent. The impact on Middlesex Centre businesses is estimated below.

| Category | Assessment | 2020 BET Rate | 2021 BET Rate | Rate Differential | Tax Reduction |
|---------------|--------------------|------------------|------------------|----------------------|------------------|
| Commercial | 145,864,597 | 1.2200 | 0.8800 | 0.3400 | \$446,377 |
| Industrial | 12,901,100 | 1.2500 | 0.8800 | 0.3700 | \$47,734 |
| Totals | 158,765,697 | | | | \$494,111 |

There is an estimated \$494,000 reduction in business education taxes for Middlesex Centre businesses in 2021.

This reduction will provide relief to all businesses irrespective of their size, ownership or other attributes.

Optional Small Business Property Subclass

During the Provincial Review, stakeholders shared concerns on the property tax burden that small businesses face. As a result some municipalities have requested additional tools to provide targeted tax relief to small businesses.

The Province intends to enact regulations to establish an optional Small Business Property Subclass, within the property categories under the Assessment Act, to address this issue.

The new subclass will be part of the Broad Commercial Tax Class and the amount of the reduction and/or minimum/maximum reductions will be set by regulation.

Staff have attended a webinar provided by the Municipal Finance Officers Association and another webinar provided jointly by the Ministry of Finance and Municipal Property Assessment Corporation (MPAC), on this topic.

It was clear from these two events that all information on this subject is not available, since regulations have not been issued. It was also clear from the Ministry of Finance and MPAC representatives that municipalities will be responsible for the following:

- 1) Creating a definition of a small business for their subclass and determining the parameters for how a property qualifies for inclusion.
- 2) Providing a list of small businesses that qualify for this subclass to MPAC each year.
- 3) Updating MPAC for any changes during the year for eligibility to this subclass.

While the Provincial Budget enables property tax relief for small business, the provincial budget doesn't fund the relief. Any reductions to taxes for small businesses would be funded through a redistribution of property taxes onto other classes of property by the municipality.

As noted above, the new small business tax subclass is optional and is to be defined locally. In addition to considering whether this is an effective and appropriate solution in the short and/or long term, there are a number of implementation matters to take into account.

Implementation opportunities:

The ability to create the subclass gives municipalities a method to provide targeted relief to small businesses. There is pressure from small business owners to help alleviate some of the financial burden caused by the pandemic.

Implementation challenges:

Eligibility: The provincial government is proposing to allow municipalities to define small business eligibility in a way that best meets local needs and priorities. Business properties exist in both the broad commercial and industrial property classes, and a small business subclass could be established in one or both classes. The Municipality would need to consider how to define a "small business" in a way that can be captured in the MPAC-managed assessment roll. Although property classification is normally performed by MPAC, in this case municipalities would have to identify the roll numbers to be included in the small business class based on their definition. Municipalities do not have broad experience in determining the eligibility of properties for a particular property class. A small business can be defined in numerous ways including by number of employees, by property value, by a class of businesses, by businesses within a geographic area (e.g. located in a BIA), by sales revenue, etc. Some of this information is not part of the assessment roll. Input will be required from MPAC as to how to define a small business and maintain the assessment roll in a practical manner. Additionally, the eligibility would be different from one municipality to another, without any consistency businesses may struggle in understanding if they have multiple businesses located in different municipalities, this would cause an increase in call volumes.

Tax shifts onto other properties: The annual budget determines the amount of taxes to be levied and a variety of tax policies determines the property tax rates for each property class. Lowering the tax rate for a small business subclass shifts the tax burden onto other classes of property including residential, multi-residential, and other commercial/industrial properties.

Implementation and annual maintenance costs: There would be incremental costs associated with the implementation of the small business subclass. If the municipality's definition includes information that is not part of the assessment roll, an application

process may be required to determine eligibility, which could require additional municipal resources.

Timing: Implementation would begin in 2022 or later as the assessment roll for 2021 has been finalized and delivered. This will be explored further once the regulation has been published.

Implementation objectives:

In considering whether to implement a new subclass for small business, short and long term objectives should be considered. While some negatively impacted small businesses need immediate help to assist with the effects of the COVID-19 pandemic, creating a new property subclass takes time to implement. Further, the effects of creating a new property tax subclass will extend beyond the current financial crisis. Temporally, there appears to be a mismatch between the needs of some businesses and the creation of this new subclass.

Furthermore, a rushed implementation could potentially create inequities and foster animosity between businesses, residents, and municipalities. Properties excluded from the subclass could be the subject of property tax appeals. Both the Province and municipalities should proceed cautiously to ensure both the regulatory framework and subsequent implementation of the subclass support long term strategic objectives.

It is also noted that additional supports for the business community are being provided by the Province and locally through the Municipalities Improved Community Improvement Plan.

Currently, the Province is drafting the necessary regulation. For the Province, much of the challenge lies in the development of the regulation. While flexibility will be critical to reflect unique local circumstances, it must be balanced with the imperatives of fairness and equity, in addition to the need for administrative safeguards. Factors that will need to be considered in drafting the regulation include:

- Providing municipalities with discretion over eligibility criteria, including the ability to draw on roll-based and non-roll-based variables. This discretion, however, should be guided by the intent of anti-bonusing provisions in section 106 of the Municipal Act, 2001. The intent of Section 106 is to ensure that fairness and transparency guide the exercise of this discretion and protects the exercise of this discretion by municipalities against undue pressure for special treatment of individual businesses. In the property tax and assessment context, provisions would be necessary to safeguard against the application of special treatment for some properties to the exclusion of other similar properties.
- Providing municipalities with discretion over program administration, including the ability to create an applications-based program similar to current tax incentive programs should they so choose, and to set administrative exclusions that cannot be overridden on appeal.

- Providing municipalities with the authority to compel taxpayers to submit required information as a matter of course in compliance with local policies as related to the parameters of the subclass.

The regulation will need to ensure that the solution matches the problem and that the implementation of the subclass is equitable, effective, and efficient.

At this time, no additional work will commence on this matter until the regulation have been released. Additionally, staff will be working with the other lower tiers in the County once the regulation is released to determine if a consistent approach across the County could be a possibility.

Assessment of Business Properties in Redevelopment Areas

The impact of redevelopment and speculative sales on small business assessment values was brought forwarded during the Provincial Review of the property tax and assessment systems during 2020.

Staff are not aware that these two issues are relevant for Middlesex Centre and will continue to review this matter as the Ontario Government releases more details on regulatory framework for them.

Business Vacancy Rebate and Reduction Programs

The Ontario Government is streamlining these programs by changing the requirements for the Province to issue regulations for every municipal program. A municipality can now change their own program by passing a municipal by-law for the adjustments. Middlesex Council previously eliminated the Vacant Unit Rebate Program. The Vacant and Excess Land Reduction Program was left unchanged.

Staff is not recommending any changes to either program for the 2021 taxation year.

Tax Exemption for the Army, Navy & Air Force Veterans in Canada

The Province is extending property tax exemptions to properties owned by similar Army, Navy and Air Force veteran groups. Staff are not aware of any properties in Middlesex Centre that would apply to this extension.

Analysis:

Although the decision to implement the optional small business class or not is one for County Council, staff from the County and the area municipalities will be working closely together on this issue. Discussions to date have focussed on both the opportunities and challenges outlined in this report. Further reviews with staff at the area municipalities will be undertaken once the necessary regulation has been published.

Financial Implications:

The Province is providing a tax reduction of approximately \$494,000 to all businesses in Middlesex Centre starting in 2021 through BET rate adjustments.

While the option for a small business class would enable municipal property tax relief, there is no associated funding from the Province. Any small business relief would be funded through a redistribution of property taxes onto other property classes.

Municipalities will need time to understand the costs and benefits of the optional small business property subclass. Part of this cost relates to ongoing administration and staffing costs to administer the program at a local level.

Strategic Plans:

This matter aligns with following strategic priorities:

- Responsive Municipal Government

This report responds directly to Objective 5.3— Foster a culture of innovation, continuous improvement, and cost-effective services by sharing information and gathering input, by continuing our timely and effective communication to the public.

Attachments:

A1 ADM Letter to Municipalities - Nov 17 2020