

Report to Corporate Services Committee

To: Chair and Members
Corporate Services Committee

From: Anna Lisa Barbon, CPA, CGA, Managing Director Corporate Services and City Treasurer, Chief Financial Officer

Subject: 2021 Tax Policy Expectations

Date: March 1, 2021

Recommendation

That, on the recommendation of the Managing Director, Corporate Services and City Treasurer, Chief Financial Officer, this report BE RECEIVED for information.

Executive Summary

The 2021 Tax Policy and future Tax Policy for the City of London will be shaped by announcements and decisions made in 2020 by the Province. The most notable of these announcements being the impact of the reduction in the business education tax (BET) rates, postponement of the reassessment of properties in Ontario, and the introduction of the option for municipalities to create a small business property subclass.

Linkage to the Corporate Strategic Plan

Council's 2019 to 2023 Strategic Plan for the City of London identifies "Leading in Public Services" as a strategic area of focus. The information contained in this report would assist in developing tax policy to align with Council priorities of the Strategic Plan.

Analysis

1.0 Background Information

1.1 Previous Reports Related to this Matter

Corporate Services Committee, January 18, 2021, Consent Item 2.6, Assessment Growth for 2021, Changes in Taxable Phase-Values, and Shifts in Taxation as a Result of Reassessments

<https://pub-london.escribemeetings.com/filestream.ashx?DocumentId=76699>

1.2 Tax Policy Guiding Principles

The guiding principles for the City of London's Tax Policy in past years have been equity, economic development, transparency, and administrative efficiency.

2.0 Discussion and Considerations

2.1 Business Education Tax Rates

As part of the Provincial 2020 Budget, the Province announced that business education tax rates across the Province will be reduced to 0.88% in 2021. As a result, business properties would see that their 2021 education tax rates will be reduced. For business properties where building permits were applied for before March 22, 2007, the business education tax rate for 2021 would decrease from 1.25% to 0.88%. For business properties where building permits were applied for after March 22, 2007, the business

education tax rate for 2021 would decrease from 0.98% to 0.88%. The majority of business properties in the City of London had building permits applied for before the March 22, 2007 date. This rate reduction will impact both the commercial and industrial property classes. It is anticipated, according to the Provincial Budget, that the reduction in BET will save commercial and industrial businesses in London \$20.95 million annually.

2.2 Reassessment

On March 25, 2020, the City was advised that the Province postponed reassessment which means that property assessment for the 2021 taxation year will continue to be based on the same valuation date that was in effect for the 2020 taxation year. That valuation date was the 2016 market values. As reported to the Corporate Services Committee on January 18, 2021, based on information provided by the Municipal Property Assessment Corporation, no changes in total phase-in values for taxable will occur properties in 2021. This reduces one of the variables that Council considers when setting Tax Policy.

2.3 New Optional Small Business Property Subclass

The Province 2020 Budget also announced that municipalities will have the option to provide a property tax reduction to eligible small business through the adoption of a new small business property subclass. As of January 13, 2021, the Province has passed the necessary amendment to the Assessment Act. Once a regulation defining the parameters of the small business subclass is passed, this amendment will allow municipalities to define small business eligibility through a municipal by-law. Although the Province is providing a mechanism for municipalities to provide property tax relief to eligible small businesses, the Province has left the definition and eligibility criteria to the municipality. Further, the Province identified that it will also consider matching these municipal property tax reductions.

3.0 Key Issues and Considerations

3.1. Small Business Property Subclass Key Issues

The option to create a new small business property subclass presents a host of items that the City of London would need to consider. These items include, but are not limited to:

- How the Small Business Property Subclass will be defined?
- Which other property tax classes will accommodate the property tax reduction for properties eligible for the Small Business Property Subclass; i.e. residential, multi-residential, farm, industrial, and/ or the remaining commercial properties not meeting the criteria?
- Administration costs
- Timing of Regulation and update to MPAC data
At the time of this report, the Province has not provided any regulation related to this. Further, MPAC data already provided for 2021 does not factor small businesses in.
- Community Engagement
- Would the creation of this subclass address a short-term objective or a longer-term objective?

3.2 Small Business Property Subclass Considerations

There are numerous implementation challenges related to this optional subclass:

3.2.1 Timing:

Implementation of a small business subclass for the 2021 fiscal year would be extremely challenging. The regulation stipulating the requirements must be issued before a municipality can adopt the subclass. Since the MPAC

assessment roll has already been created for 2021, implementation would result in potentially significant write-offs in 2021 to correct possible classification errors. Proper preparation for the creation of a significant new property class requires a great deal of notice which is not available prior to the finalization of the 2021 tax policy for the City of London.

3.2.2 Eligibility:

The City of London would need to determine how to define a “small business” in a manner that can be differentiated in the MPAC-provided assessment roll. Potential methods of defining a small business include by property value, by number of employees, by sales revenue, and by geographic area. As most of this information is not included in the assessment roll, MPAC input will be needed to help define a small business within the parameters available. The Tax Office does not collect information related to number of employees or sales revenue by business nor is the Tax System for these data points to maintain this information. Many small businesses are tenants in a portion of a large building. Conversely, relatively small buildings can be occupied by large businesses. This means that defining the size of a business using assessment value is problematic and that a small business subclass would not directly benefit small business tenants.

3.2.3 Tax Shifts onto other property classes:

Creating a small business class with a lower tax rate will not change the total tax levy for the City. The tax burden would shift onto other classes of property including residential, multi-residential, and other business class properties.

3.2.4 Implementation costs:

Incremental costs associated with the implementation of the small business subclass include system programming, human resources, and additional workload. If eligibility for the subclass includes information not available on the assessment roll, an application process would be necessary and would require additional resources. Creation of this subclass could necessitate major software changes depending on how the class is defined, monitored, and maintained. These costs would certainly add to the Tax Office on-going operational costs and to the overall tax levy.

3.2.5 Appropriateness of proposed solution:

The current and immediate impact in reference to small businesses is the ongoing global pandemic. Both the Federal and Provincial governments have implemented programs to assist small businesses. These levels of government are better equipped to assist small business because they have greater financial capability and information to support and identify small businesses that need assistance. Rather than a response to pandemic concerns, a representative from the Ministry of Finance has confirmed that the flexibility to adopt a small business property subclass was provided in response to some municipalities seeking a more long-term approach to target property tax relief to small businesses. Although some negatively impacted small businesses seek immediate help to assist with pandemic impacts, creation and implementation of a new property tax subclass will take time to implement. Since the effect of creating the small business subclass will extend beyond the current financial crisis, there is an apparent mismatch between the needs of some businesses and the creation of the subclass. A rushed implementation could potentially create inequities and result in animosity and future tax appeals.

3.2.6 Historical Context for a Small Business Property Class:

Historically, maintaining an assessment roll that accurately differentiates small businesses from other business properties is a complex administrative process. Prior to 1998, a Business Occupancy Tax (BOT) was used to attribute the business assessment to each property based on the type of business occupant. The BOT, which was administratively inefficient and questionable from an equity perspective, required a great deal of administrative work for MPAC and for local municipalities. The major tax reform implemented by the Province in 1998

eliminated the BOT by applying an average BOT percentage to all business properties and mitigating assessment change impacts by using a capping system.

3.2.7 Uniform Class Definitions as a principal of tax policy:

Currently, Ontario Regulation 282/98 defines how MPAC will allocate all properties in the Province to the various property classes. This approach ensures consistency throughout the Province in classification of properties. Adoption of a small business subclass would mean that, although they do not have broad experience in determining the eligibility of properties for a specific property class, municipal staff would have to identify the roll numbers to be included in the small business subclass. This could lead to many inconsistencies in how businesses are taxed in different municipalities throughout the Province. This would complicate the preparation of the assessment roll and MPAC may not have the capacity to do the work required by the municipal definition of a small business. The administrative work and system issues related to the creation of a new property class would then be the responsibility of the municipality.

3.2.8 Community Engagement:

Input from the public should be sought to ensure the intended benefit to small businesses is likely to be achieved through implementation of a small business subclass. Feedback should be obtained from property owners who would benefit from a small business subclass as well as those who would experience an increase in taxes due to a tax shift. To date, our engagement with other municipalities has revealed that there are no known municipalities anticipating adoption of a small business subclass in 2021.

Conclusion

The reduction in business education tax rates will benefit commercial and industrial businesses in 2021 and annually thereafter which equates to approximately savings of \$20.95 million per year. As the scheduled reassessment for 2020 was delayed, there is no phase-in to impact tax ratios. Assuming no changes in tax ratios, the estimated property tax rate (municipal and education) for commercial and industrial properties where the building permit for construction was applied before March 22, 2007 would decrease 8.279%. For building permits applied for after March 22, 2007, the decrease is estimated to be 0.689%.

Since reassessment was postponed and the municipal tax levy was approved, assuming no changes to tax ratios, all property classes would see an approximate 3.35% increase for the municipal portion of the property tax bill.

At the time of writing this report, due to the lack of a regulation, insufficient timing and the numerous implementation challenges and corresponding costs, adoption of a small business subclass for 2021 is not recommended.

Looking ahead, Civic Administration will be bringing forward a 'Tax Policy Report' presenting alternatives for tax ratios for 2021 property taxation.

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