

# **Property Tax Reform Options 2005 and Beyond**

*Presentation to  
Ad Hoc Committee on the Development of a  
Long Term Fiscal Plan*

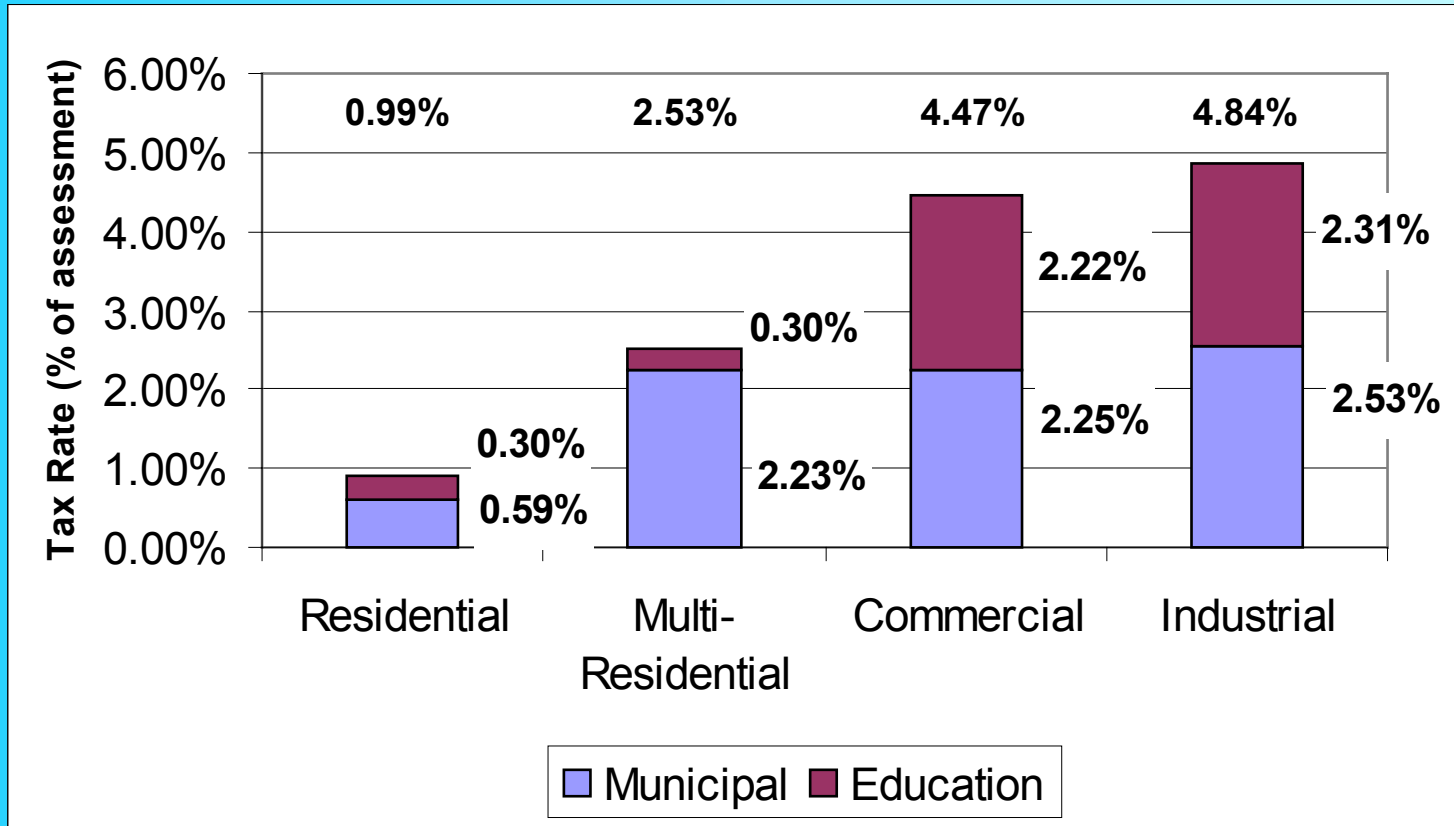
*July 14, 2004*

# Presentation Outline

1. Business Tax Competitiveness
  - tax shifts between classes
  - budgetary levy increase restrictions
  - business education taxes
2. CVA Implementation - Business Capping and Clawback
3. Protection for Vulnerable Businesses
4. Next Steps

# 1. Business Tax Competitiveness

# 2004 Tax Rates - Toronto



# Tax Ratio Defined

- Tax Ratio is the ratio of the tax rate for a property class in comparison to the residential tax rate.
- Relates only to **municipal** portion of taxes

$$\frac{\text{Commercial Tax Rate}}{\text{Residential Tax Rate}} = \frac{2.25\%}{0.59\%} = \text{Tax Ratio } 3.8$$

**Commercial tax rate is 3.8 times the residential tax rate**

- Current Municipal Act requirement is that tax ratios must not be increased

# Business Tax Competitiveness

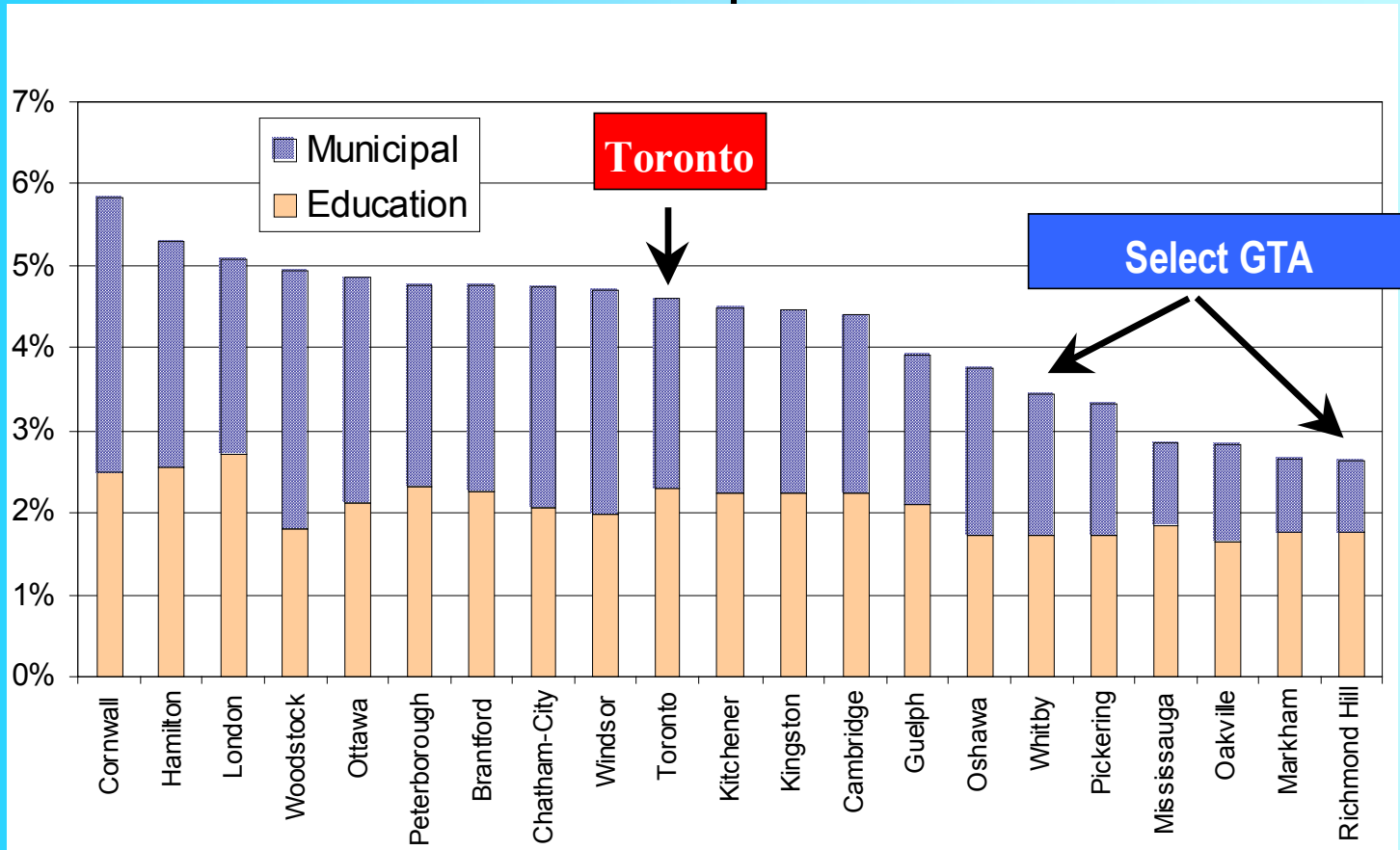
- In 2004, ratio of business tax rates to residential rates in Toronto are high

## Provincial Threshold Ratios

– Commercial:	3.8X	1.98X
– Industrial:	4.3X	2.63X
– Multi-Res.:	3.8X	2.74X

# Toronto's Business Taxes Competitive with Much of Ontario but Not GTA

## 2003 Commercial Tax Rates for Select Ontario Municipalities



# Business Tax

## Competitiveness (cont.d)

- Business rates high due partly to 60 years of provincial inaction on reassessment
- Between 1940 and 1998, ratios between bus. and res. tax rates were fixed at 1.17, but assessed values rose at different rates
  - Residential: 37X
  - Commercial: 7X
  - Industrial: 5X
  - Multi-Res. 10X

# 1998 CVA Reform

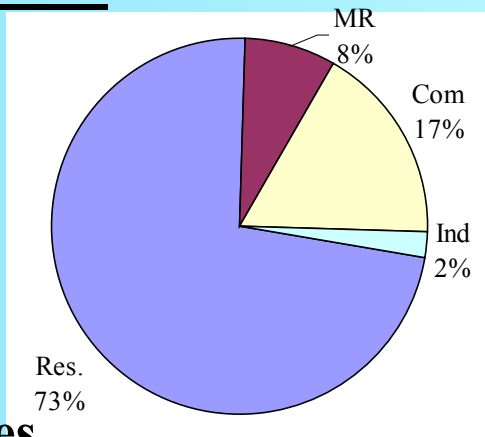
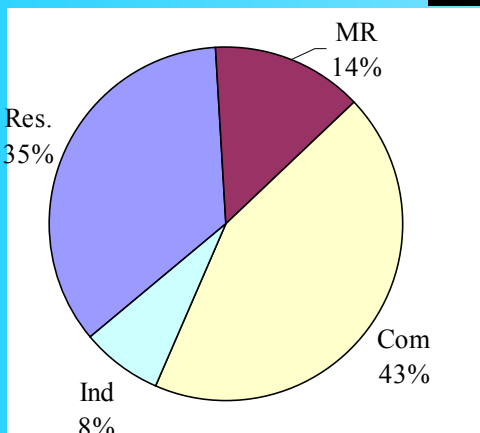
## CVA Update



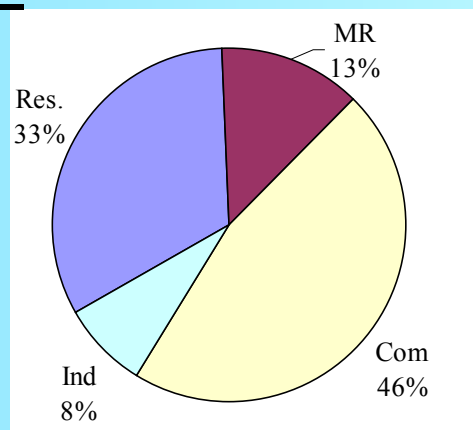
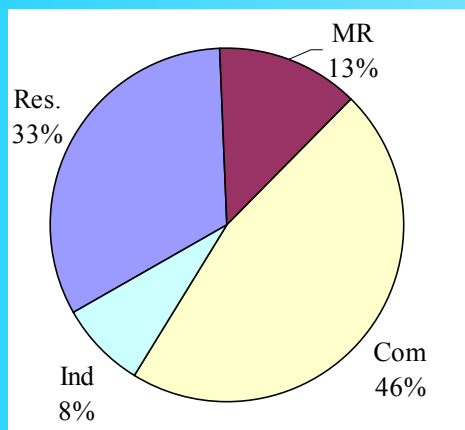
**1998 Pre-Reform**

**1998 Post-Reform**

### Share of Assessment



### Share of Taxes



↔  
No change  
in burden

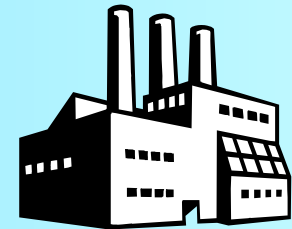
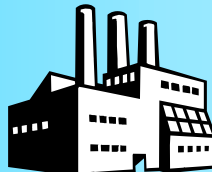
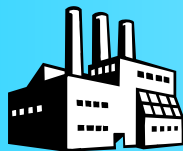
With each reassessment, if you do not allow tax shifts to occur:



CVA \$100,000  
 Tax Paid \$1,000  
 Tax Rate 1.0%

\$120,000  
 \$1,000  
 0.893%

\$200,000  
 \$1,000  
 0.50%



CVA \$100,000  
 Tax Paid \$4,000  
 Tax Rate 4.0%

\$120,000  
 \$4,000  
 3.3%

\$140,000  
 \$4,000  
 2.85%

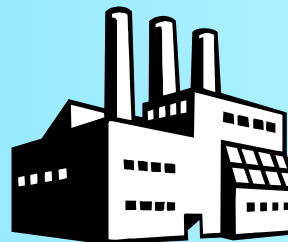
*4x Res.*

*5x Res.*

*6x Res.*

# CVA Tax Shift Between Classes

(current tax rate rules)



Assessed Value	\$ 100,000		\$ 100,000	
Tax Rate	1.0%	4X	4.0%	
Taxes Payable	\$ 1,000		\$ 4,000	Total Tax \$ 5,000

↓ REASSESSMENT ↓

Assessed Value	\$ 120,000		\$ 110,000	
Tax Rate	0.89%	4X	3.57%	
Taxes Payable	\$ 1,068		\$ 3,927	Total Tax \$ 5,000
<i>Tax Shift</i>	<i>+\$68</i>		<i>-\$68</i>	<i>\$ 0</i>

# Municipal Act - Issues

- ‘Bill 140’ Objective - to reduce disparity between business and residential and tax rates
  - no levy increase on non-residential
  - ratcheting of tax ratios downwards through tax shift between classes
- Because this disparity occurred over 60 years, it will take many years to prevent sudden financial impacts

# 2004 Provincial Interim Tax Measures

- For 2004 only, allowed:
  - tax ratios to increase (to avoid tax shift)
  - 50% of residential tax rate increase to be passed onto non-residential
- Stop-gap measure to allow for consultation to develop longer-term tax policy strategy that is fair and consistent

# Reduction in Tax Ratios since 1998

Ratio to Residential	1998 to 2000	2001 Taxation year	2002 Taxation year	2003 Taxation year	% Reduction since 1998	2004 Taxation year (per Prov. announcement)
Multi-Residential	5.235	4.174	4.001	3.987	24%	3.789
Commercial	4.276	3.798	3.640	3.622	15%	<b>3.861</b>
Industrial	5.969	5.301	5.081	4.243	29%	<b>4.336</b>

## Provincial Target Ratios

Multi-Residential	2.74
Commercial	1.98
Industrial	2.63

# Conclusion - Tax Rate Targets

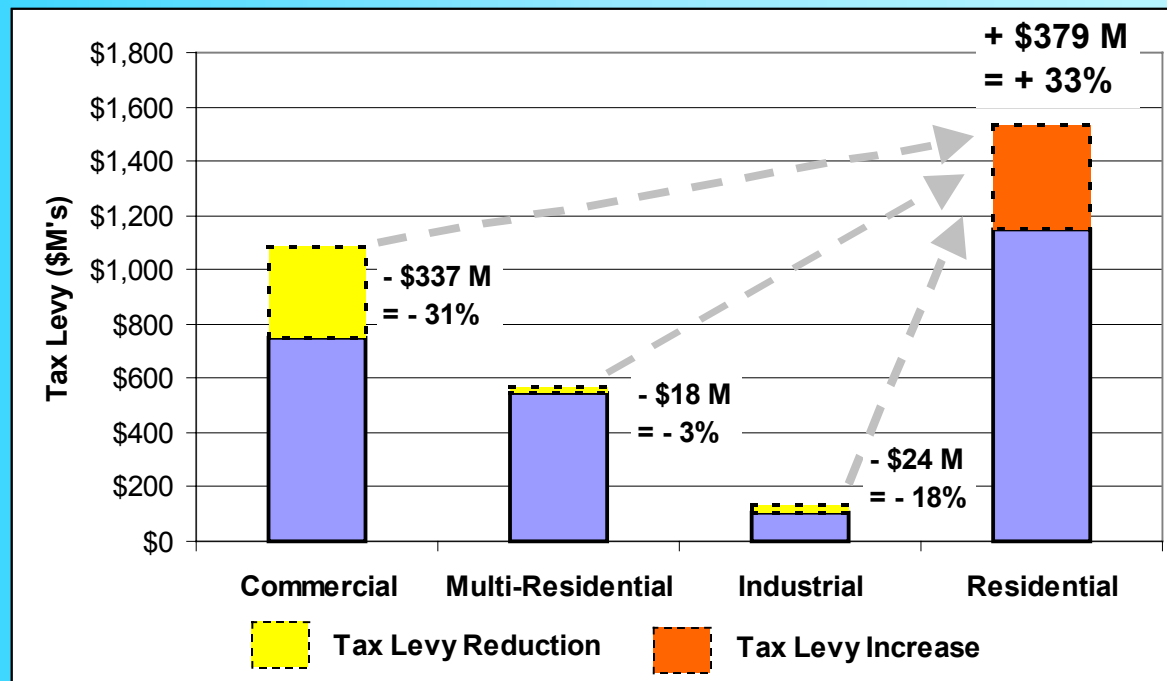
- Toronto's property taxes on businesses are much higher than residential taxes and higher than the areas outside of Toronto. Part of this is because, under the old system, tax shifts between classes did not take place to allow relative taxes paid to keep pace with changes in Current Value Assessment.
- ***Question:***  
*How would you suggest correcting this problem to keep business taxes in Toronto competitive?*

# Restrictions on Business Tax Increases

- Intent:
  - for municipalities whose business tax rates were higher than the provincial average, as tax rates increased over time on homeowners, the disparity between residential and business tax rates would be resolved.

# Restrictions on Business Tax Increases

- Impact of immediately moving municipal business tax ratios to provincial averages



# Restrictions on Business Tax Increases



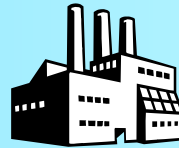
## Full Restriction



3% increase



\$30 million



0% increase

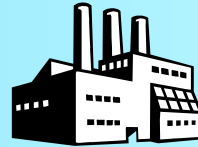
## Partial Restriction



1.5% increase



\$30 million



0.75% increase

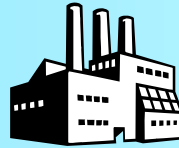
## No Restriction



1% increase



\$30 million



1% increase

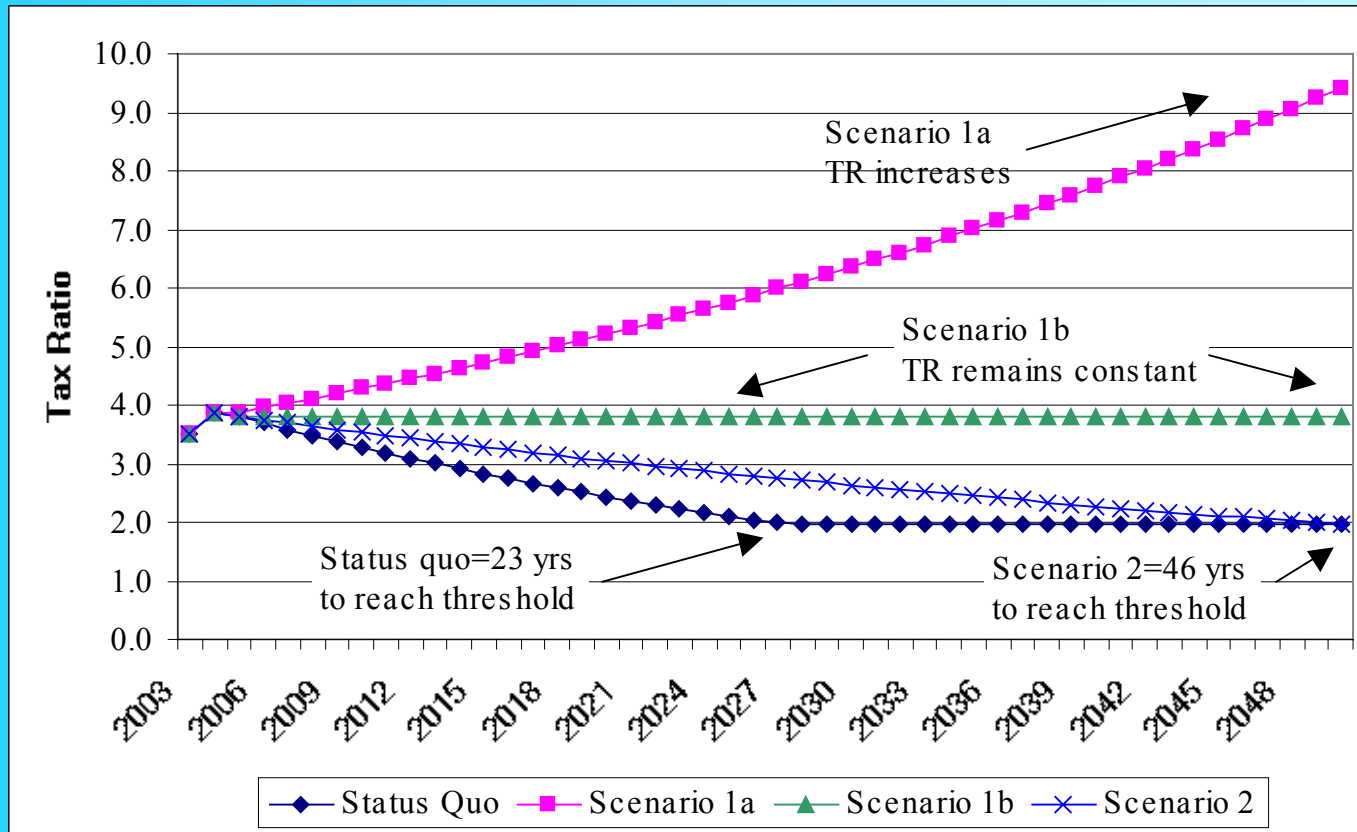
# Tax Shift and Business Tax Increase Scenarios

Status Quo: No business tax rate increases allowed: shifts occur between classes due to updated values on properties

1. City allowed tax rate increases across entire tax base and:
  - (a) no shifts between classes allowed
  - (b) shifts between classes allowed
2. City partially constrained on tax rate increases (eg. 50% of res. Increase) and tax shifts between classes allowed

## Tax Ratio Impacts of Alternate Scenarios

(Commercial: Provincial Threshold Ratio = 1.98)



Status quo = No levy increase; Tax shift allowed between classes

Scenario 1a = Levy increase allowed; No tax shift allowed between classes

Scenario 1b = Levy increase allowed; Tax shift allowed between classes

Scenario 2 = 50% levy increase allowed; Tax shift allowed between classes

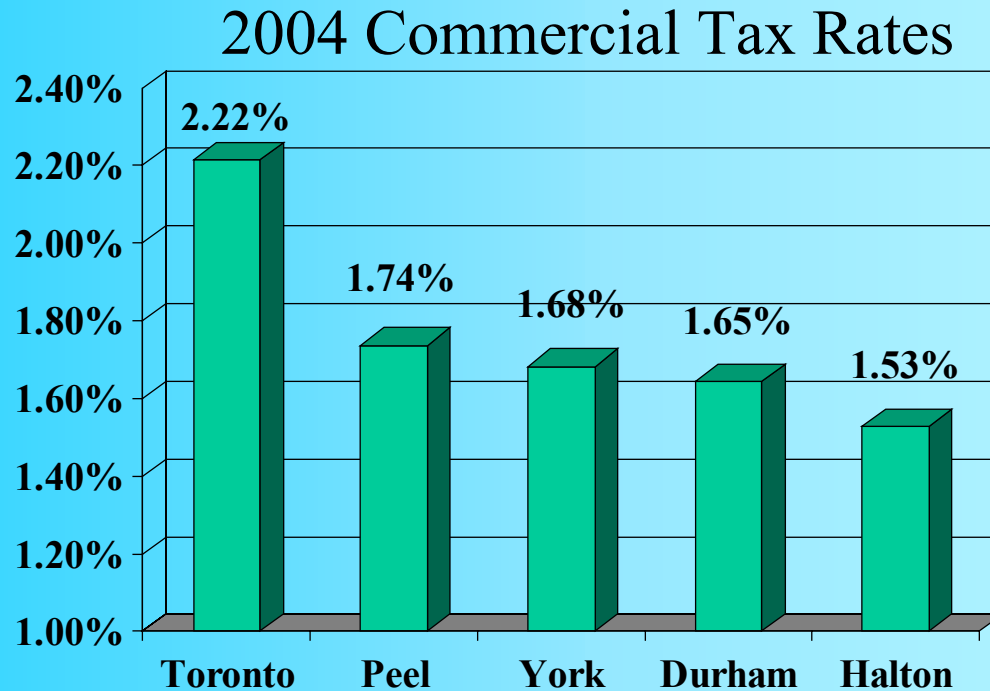
# Restrictions on Business Tax Increases

- **Intent:**
  - for municipalities whose business tax rates were higher than the provincial average, as tax rates increased over time on homeowners, the disparity between residential and business tax rates would be resolved.
- ***Question:***

*Should all property classes in Toronto pay the same portion of any necessary tax increases, even if this means that business taxes remain higher than residential taxes?*

# Provincial Business Education Tax Rates

- Province sets education tax rates annually:

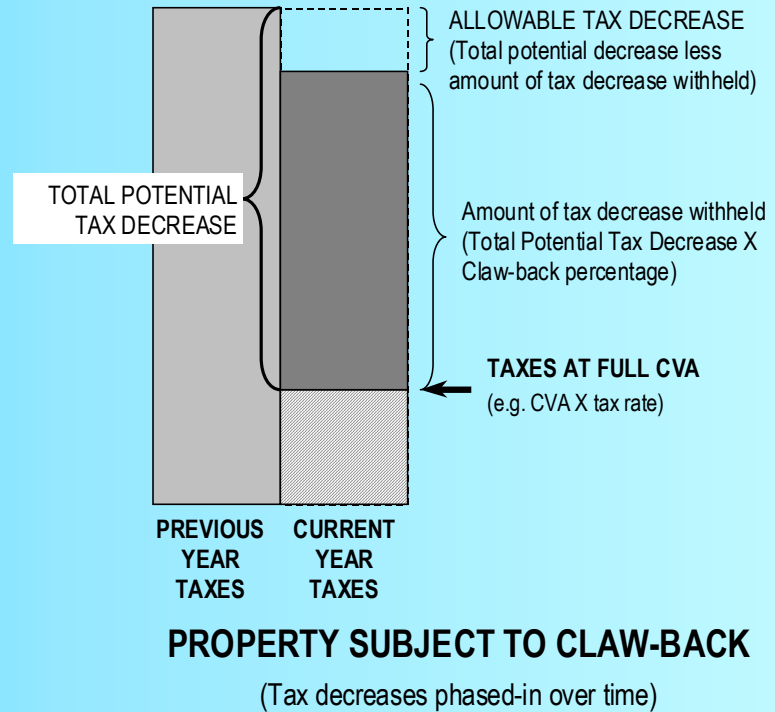
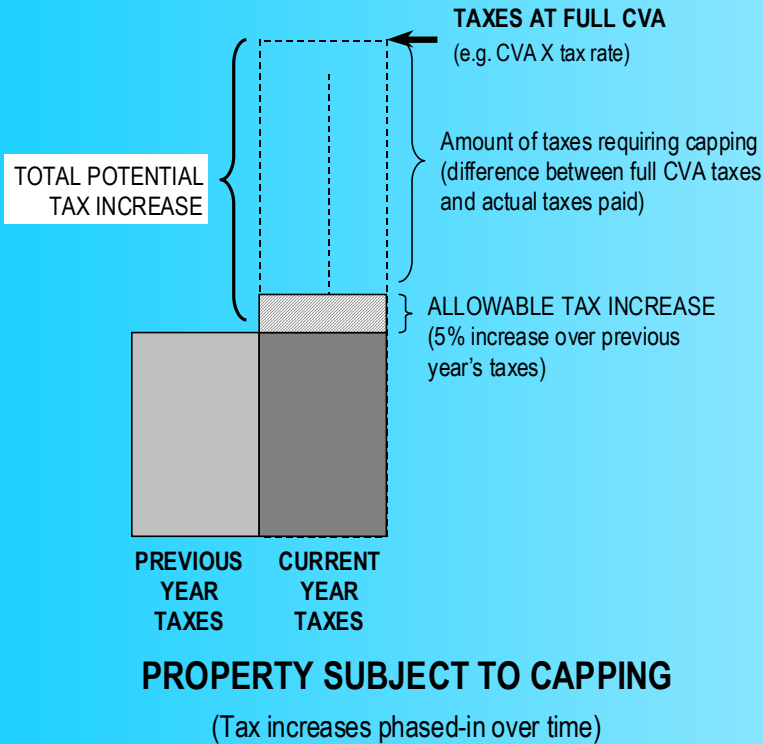


**Question:**

*Should the Province be requested to reduce the business education tax rates to that of the average for the municipalities in the GTA?*

## 2. CVA Implementation - Business Capping and Clawback

# Capping/Clawback Mechanism



# Capping/Clawback Mechanism

- Under current tax capping rules, full CVA taxation will take many decades to achieve in Toronto, prolonging inequities

## Alternatives Announced:

- 1 Cap CVA-related tax increase at 10% of prior years' taxes
- 2 Cap CVA-related tax increase at 5% of full-CVA tax (vs. prior years' tax)

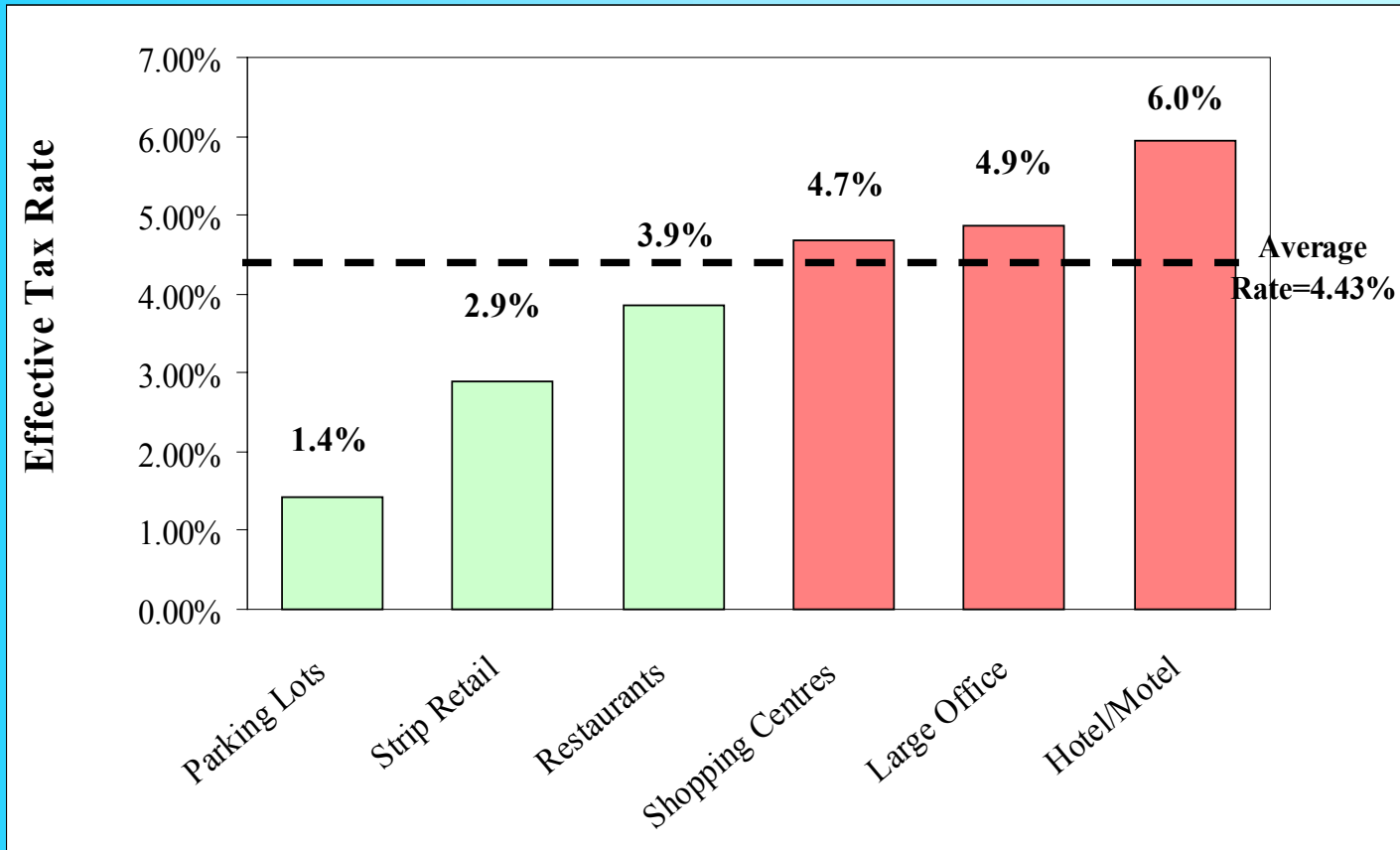
# Capping/Clawback Issues

## *Question:*

*Should Toronto look at ways to accelerate the progress to full CVA taxation on business, even if this means that some properties will have to pay greater annual tax increases?*

# 3. Protecting Vulnerable Businesses

# Effective Tax Rates - 2004



# Impact of Moving to CVA

	No. Properties	2004 Actual Taxes	Full CVA Destination Tax	Tax Impact	% Impact
Parking Lots	306	\$ 12.9	\$ 39.9	\$ 27.0	209%
Hotels/Motels	336	\$ 93.9	\$ 70.5	(\$ 23.3 )	(25%)
Neighbourhood Shopping Centres	954	\$ 210.7	\$ 200.4	(\$ 10.3 )	(5%)
Large Offices	305	\$ 865.4	\$ 791.3	(\$ 74.0 )	(9%)
Restaurants/Tavern	410	\$ 16.0	\$ 18.5	\$ 2.5	16%
<b><i>Retail/Strip Retail</i></b>	<b><i>13,600</i></b>	<b><i>\$ 143.1</i></b>	<b><i>\$ 220.5</i></b>	<b><i>\$ 77.5</i></b>	<b><i>54%</i></b>
All Commercial	31,502	\$ 2,155.3	\$ 2,155.3	(\$ 0.0 )	(0%)

# Protection for Small Businesses - Options for Discussion

- 1. Use Separate Property Classes**
- 2. Use Graduated Tax Rates**
- 3. Use Designated Areas**

# Issues Related to the Protection of Small Businesses

- No consensus or uniform definition of what constitutes a “small business” or “small retail” establishment.
- In all likelihood, any definition will inadvertently include properties that should not be included, and inadvertently exclude properties that should be included.
- The majority of businesses are tenants in multi-tenanted properties; the property owner, through the lease, apportions and collects taxes from the individual tenants.

# Graduated Tax Rates

Example of two band GTR on a \$600,000 property:

	<u>Assessment</u>	<u>Rate</u>	<u>Taxes</u>
<b>Current Tax Regime</b>	\$ 600,000	4.43%	<b>\$ 26,580</b>
<b>Graduated</b>			
First \$500,000 in assessment	\$ 500,000	2.91%	\$ 14,550
Amount over \$500,000 in assessment	\$ 100,000	4.85%	\$ 4,850
			<b>\$ 19,400</b>

# Protecting Vulnerable Businesses

## *Statement:*

Any accelerated phase out of the current capping mechanism (as noted in Question 3 above) may result in significant tax increases on Toronto's small retail/strip retail businesses.

## *Question:*

*Should small neighbourhood businesses pay less taxes, even if this means that other businesses, or perhaps other property classes, would pay more?*

# Heritage Property Tax Rebates

## *Statement:*

Toronto has not implemented a Heritage Tax Rebate Program which would allow a partial rebate of property taxes to owners of designated heritage properties because the tax caps on commercial and industrial properties do not permit all the costs of this program to be borne by these classes, even though they would receive the most benefit.

## **Question:**

*Should the caps be amended or a separate tax class be created to allow this program to be funded within the tax classes rather than requiring the residential tax payers to cover rebates that will be paid to commercial and industrial property owners?*

## 4. Consultative Process & Next Steps

Stakeholder consultation	July – August 2004
Deadline For Written Submissions	August 31, 2004
Policy & Finance Committee review of recommendations	September 15, 2004
Council consideration and adoption of longer-term tax policy strategy, for consideration of Province	September 28-30, 2004
Fall Session of Provincial Legislature	September 27 – November 4, 2004