TORONTO

STAFF REPORT
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Enhancing Toronto's Business Climate Update - Feasibility of Excluding Retail Chains from Tax Relief Plan for Small Businesses

Date:	September 17, 2007
To:	Executive Committee
From:	Deputy City Manager and Chief Financial Officer
Wards:	All
Reference Number:	P:\2007\Internal Services\Cf\ec07039cf – et (Tracking #5657)

SUMMARY

This report responds to a request made at the July 16, 17, 18 and 19, 2007 City Council meeting to report on the exclusion from the neighbourhood retail tax relief program for certain types of properties. A key initiative approved by Council in October, 2005 under enhancing Toronto's business climate to provide property tax relief for neighbourhood retail has not commenced because of legislative and definitional challenges. These impediments were addressed in a report from the Deputy City Manager and CFO dated June 6, 2007 which was deferred by City Council at its Meeting on July 16, 2007 for consideration at the October 22, 2007 meeting. The request to further segregate bank branches, cheque cashing institutions, gas stations, and retail chains/franchise/big box stores, etc., will result in similar legislative and definitional issues and therefore cannot be resolved in a timely manner. Staff have ongoing discussions with the Province towards enabling legislation to allow the City create tax classes for neighbourhood retail and other property types that Council may deem appropriate. Adoption of the recommendations contained in the June 6th 2007 report will enable to the City to provide property tax relief to small and medium businesses starting in 2008.

Financial Impact

There is no financial impact from receipt of this report.

DECISION HISTORY

In October 2005, Council adopted a set of comprehensive incentives and initiatives intended to enhance the City's competitiveness over the long term. The report "Enhancing Toronto's Business Climate – It's Everybody's Business" can be viewed at: www.toronto.ca/legdocs/2005/agendas/council/cc051026/pofedp2rpt/cl001.pdf. The initiatives contained therein which are within the City's sphere of responsibility have commenced. A number of other initiatives, such as the ability to provide a lower tax rate for neighbourhood retail businesses require Provincial regulatory and legislative changes, which have not been made, and hence cannot be implemented in their current form.

On July 16, 17, 18 and 19, 2007, City Council considered a follow-up report from the Deputy City Manager and Chief Financial Officer headed "Enhancing Toronto's Business Climate – Update (June 6, 2007)". This later report provided an update on the status of the 2005 initiatives adopted by Council, and makes recommendations necessary to implement the remaining initiatives. This latter report can be viewed at: www.toronto.ca/legdocs/mmis/2007/ex/bgrd/backgroundfile-5039.pdf. City Council deferred consideration of this report to the October 22, 2007 meeting of City Council, and directed that, in the interim, the Deputy City Manager and Chief Financial Officer review and report on:

1. the feasibility of excluding bank branches, as well as Money-Mart and other small cheque cashing institutions, and gas stations from the tax relief program; and

2. the feasibility of separating retail chains from this program, recognizing that some retail chains may be franchises and are really small businesses.

ISSUE BACKGROUND

A key initiative to provide property tax relief for neighbourhood retail has not commenced. The October 2005 report requested the Province to create such a property class, and for the Municipal Property Assessment Corporation (MPAC) to identify and reclassify eligible neighbourhood retail properties. The plan for this sub-group of commercial properties was to provide an accelerated tax reduction to 2.5-times the residential tax rate over 10-years, versus 15-years for the rest of commercial. The original intent to use property codes as contained in the assessment rolls presented legislative and definitional challenges that are unlikely to be overcome in the near term.

COMMENTS

The June 6th, 2007 report recommended using the broader definition of "Residual Commercial" as available in existing assessment rolls and in legislation for taxation purposes. Residual Commercial properties are the balance of commercial properties that are not defined as Large Office, Parking Lots, Large Shopping Centres, and Large Sports

Facilities. That report further recommended using a graduated tax rate within the Residual Commercial class, with the tax rate for the first assessment band being set at the neighbourhood retail tax ratio target previously approved by Council in the original “Enhancing Toronto’s Business Climate” report. The benefit of this approach, in addition to being able to commence in 2008, is that: it provides assistance to small and medium business, not just strip retail; it provides benefit to all ‘residual’ commercial to some extent; it avoids definitional issues; and finally, that no legislative change is required for its implementation.

As with defining and identifying ‘neighbourhood’ retail, the segregation of bank branches, cheque cashing institutions, gas stations, and retail chains/franchise/big box stores will present similar legislative and definitional challenges that are unlikely to be overcome in the near term.

Adoption of the recommendation contained in the June 6th report will enable to the City, starting in 2008, to provide property tax relief to small and medium businesses, particularly those commercial properties of less than $1 million assessed value. Adoption of these measures does not preclude discussions with the Province towards creating separate property tax classes for bank branches, cheque cashing institutions, gas stations, and retail chains, etc., as part of the ongoing review of the City of Toronto Act.

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