

October 25th, 2021

Mayor John Tory and City of Toronto Executive Committee
100 Queen St. West
Toronto ON
M5H 2N2

Re: Item EX27.7, *Implementing a Small Business Property Tax Subclass*, to be considered at the October 27th, 2021 meeting of the City of Toronto Executive Committee

To: Mayor John Tory and the City of Toronto Executive Committee

The Toronto Region Board of Trade (the Board) is pleased to see the City taking concrete action to support small businesses through utilization of the Province's allowance to local government to offer small businesses a reduced tax rate by way of the Small Business Subclass. The Board commends the City's core policy objectives for the Small Business Subclass: alleviating problems related to HABU (Highest and Best Use) assessment, revitalizing Toronto's main streets, and providing broad tax relief to small businesses. Each of these three objectives have been a policy priority for the Board, given the immense economic value small businesses provide to the local economy and society, and the financial hardship they have endured from the pandemic.

The Board is also pleased to see the Province leveraging the unique and first-hand knowledge local governments have of their respective local economies and business needs, by imbuing the allowance with a high degree of local-government autonomy over implementation of the Subclass. Local governments can define both what small businesses benefit from the Subclass and by how much, allowing them to more effectively and efficiently tailor the Subclass according to the unique economic needs of their respective jurisdictions.

The Board does however have some concerns with the implementation path outlined in EX 27.7: *Implementing a Small Business Tax Subclass*; and on behalf of our members, wants to ensure it is the most economically beneficial given both what is permitted in the allowance/outlined regulations and what is needed by small businesses. Therefore, the Board urges members of the Executive Council and City Council to consider the below points. The Board feels that failure to acknowledge or reconcile the below could result in; failing to attain the outlined core policy objectives; decreasing the region's potential future economic competitiveness and growth; and arbitrarily assigning tax benefits to businesses, exacerbating the competitive advantage large businesses have over small ones.

Eligibility

Section 3.0 in Attachment 1, *Small Business Property Tax Class*

- Problem

Section 3.0 defines eligibility by property value, or a combination of property value, size and location. The Board does not feel property metrics alone exhibit a strong enough corollary to a business's size or financial capacity. If the Subclass is to be efficient in its purpose to increase opportunities for small businesses in the region and consequently increase the competitiveness of the city's economy, it must be effective in its ability to identify and target the small businesses capable of deriving the

Toronto Region Board of Trade

comments re: Item EX27.7, *Implementing a Small Business Property Tax Subclass*

October 27th, 2021 meeting of the City of Toronto Executive Committee

greatest economic benefit from the Subclass.

- Considerations

The Board feels additional metrics are needed if implementation of the Subclass is to be effective and efficient. Using an application-based process, or exploring opportunities to corroborate locally known quantities (e.g. exploring opportunities with Canada Revenue agency to supplement known property metrics) could more effectively identify small businesses. In pursuit of this, the Board recommends consulting the tenets of the 'application-based' approach and 'data point limitations', as outlined in MPAC's September, 2021 report, [Ontario's Small Business Property Subclass: Considerations for Municipalities](#), pages 20 to 21 and 15 to 17

Revenue Offset

Recommendation 3, EX 27.7, *Implementing a Small Business Property Tax Subclass*

- Problem

All losses in revenue are to be diverted back to the larger, commercial property tax class. This will exacerbate the current disparity between commercial and residential properties and raise further hurdles to attaining the City's self-imposed goal of attaining a 5:2 commercial property to residential property tax ratio.

- Considerations

Offsetting some or all of the loss in revenue to residents would increase residential property tax by a minuscule amount compared to the increase to the broader business community. If the City is to proceed with offsetting a loss in revenue to small businesses, the Board asks it complete a detailed analysis of the impact the cited 0.85% increase would have on the broader economy - including competitiveness, jobs, and capital formation.

Tax Rate

Recommendation 3, EX 27.7, *Implementing a Small Business Property Tax Subclass*

- Problem

The suggested decrease of 15% is less than half of the maximum possible allotment as per the [guidance](#) set out by the Province, in its May 2021 Bulletin, *New Optional Small Business Property Subclass*. Given the province has indicated its intention to match the decrease in tax by way of a mirrored decrease in the Business Education Tax, failure to approach the maximum allotted benefit will not only reduce the total benefit received by the province, but de-incentivise the province from maintaining such a generous offer.

- Considerations

Adjust the implementation structure to increase utilization of the total available benefit to businesses (i.e. reduction in both local and provincial tax rates). This could be done by either increasing the rate or implementing a variable or tiered rate, which provides a tax advantage commensurate with size or need.

Directed relief to small business

Eligibility Criteria, *Implementing a Small Business Property Tax Subclass, Report for Action, City of Toronto*

- Problem

Current recommendations cite that "Eligibility will be assessed for all properties and will require no action from property owners and tenants". Given that many small businesses are tenants, The Board

Toronto Region Board of Trade

comments re: Item EX27.7, *Implementing a Small Business Property Tax Subclass*

October 27th, 2021 meeting of the City of Toronto Executive Committee

proposes the benefit be passed on directly to small business, which could mitigate the economic benefit realized by the tax. Toronto's rental market is largely considered to be a 'seller's market' meaning that demand is relatively inelastic. Therefore, landlords will have little incentive to pass on any realized benefit to small businesses.

- Considerations

The Board urges the City to explore policies that could ensure the tax benefit offered to small businesses is realized by small business owners. This could be achieved through several avenues, including mandating any benefit be passed down, utilization of an application-based process, and/or finding alternative methods to separately categorize small from large landlords.

Multi-property business

Limitations of the Subclass, *Implementing a Small Business Property Tax Subclass, Report for Action, City of Toronto*

- Problem

The suggested implementation guidance should account for the fact that corporate franchises, banks and other similar businesses will be located in properties eligible for the Subclass. By nature, these businesses have a much higher financial capacity than small businesses. If the Subclass policy structure is unable to sufficiently account for large franchises and/or businesses that own many small properties, it risks arbitrarily assigning benefit throughout the business community. This may in turn exacerbate the advantages larger businesses have over smaller ones.

- Considerations

Similar to the previously cited problem, *directed relief to small business*, the Board urges the City to explore policies it could utilize that could ensure the tax benefit offered to small businesses is realized by small businesses. This could be achieved through several avenues including, utilization of an application-based process, and/or finding alternative methods to separately categorize small from large property owners.

The Board recognizes, given the many new variables needed to be balanced in implementation of the Subclass, that attaining the 'correct' or most economically beneficial implementation strategy will take some trial and error. Therefore, the Board encourages the City to proceed with the implementation of the Subclass, as with fiscal policy in general, as an iterative process—needing to be reviewed, refined, with appropriate consultation, and in accordance with changing economic dynamics and fiscal policy best practices, both in the short and long run.

The Board has been actively engaged with both members and government on this topic, as detailed in the [Board's broader policy brief](#).

Sincerely,

Roselle Martino
Vice President, Public Policy
Toronto Region Board of Trade