

2018 OPERATING BUDGET BRIEFING NOTE

Provincial Business Education Taxes

Issue/Background:

In 2017, the City of Toronto levied approximately \$2.1 billion in education taxes on behalf of the Province, including approximately \$860 million in residential and multi-residential education taxes and \$1.27 billion in business education taxes. Provincial education taxes are collected by the City and remitted to the Province to help fund the annual budgets of the local school boards. School board funding is set through a provincial funding formula that is based on school enrolment, consideration of unique needs and capital considerations. The difference between school board funding requirements and that raised through education property taxes is funded by the Province from its other sources of revenues. In the 2016-2017 School Year, total funding for Toronto School Boards was approximately \$3.8 billion whereas education property taxes in Toronto raised \$2.1 billion.

Table 1 - 2017 City of Toronto Property Taxes (\$ Million)

Property Tax Class	Municipal Taxes	Provincial Education Taxes	Total
Residential	2,133.0	791.1	2,924.1
Multi-Residential	478.1	68.6	546.7
Commercial	1,378.5	1,171.4	2,549.9
Industrial	108.5	96.4	204.9
Other	3.1	-	3.1
Total	4,101.2	2,127.5	6,228.7

Historically, the education tax rates imposed by the Province on Toronto businesses have been significantly higher than that which the Province imposed on businesses in the surrounding GTA municipalities. The introduction of Current Value Assessment (CVA) in 1998 further illuminated this disparity.

The Province had previously implemented two initiatives to reduce business education taxes (commercial and industrial) among municipalities with high tax rates.

1998 Initiative:

- In 1998, the Province announced a plan to reduce business education tax rates in municipalities whose education property tax rates were above the provincial average (then estimated to be 3.3%).

- That announcement was accompanied with a suggestion that Toronto's businesses would realize a potential \$400 million reduction in commercial and industrial education taxes over 8 years. However, as a result of subsequent CVA reassessments, Toronto's business education tax rates fell below the Provincial average rate in 2002, and any further business education tax reductions for Toronto ceased. As shown in the table below, Toronto's business education taxes were reduced by a total of \$261.7 million between 1998 and 2002.

Table 2 - Business Education Tax Reductions 1998-2002 (\$M)

	1998	1999	2000	2001	2002	Cumulative 1998-2002
Commercial:						
Education Tax Rate	4.22%	4.09%	3.96%	2.65%	2.66%	
Education Levy Reduction (\$M)	\$38.4	\$36.2	\$36.9	\$74.1	\$0.6	\$186.2
Industrial:						
Education Tax Rate	5.89%	5.52%	5.15%	3.82%	3.43%	
Education Levy Reduction (\$M)	\$12.6	\$12.5	\$12.5	\$23.6	\$14.3	\$75.5
Total Education Levy Reduction 1998-2002 (\$M)	\$51.0	\$48.7	\$49.4	\$97.7	\$14.90	\$261.7

2008 Initiative:

- In 2007, the Province announced another similar Business Education Tax (BET) reduction initiative with a new target rate of 1.6%, commencing in 2008, with annual 'ceiling rates' to phase-in to this level. The target rate would be adjusted annually as needed to account for the effects of reassessment. At that time, the Provincial announcement suggested that Toronto's businesses would see a tax reduction of \$231.5 million under this initiative. The initiative was deemed a tax-cut only policy since municipalities with low BET rates would not be taxed higher to narrow the gap in rates between municipalities.
- However, this proposal was qualified with a proviso that, where BET rates were higher than the annual ceiling rate, the rate would be reduced by only 1/50th of the excess above the target in any year, and further, the target and ceiling rates would be recalculated in future years to adjust for reassessments. As shown in the table below, Toronto's BET were reduced under this second initiative by a total of only \$21.1 million between 2008 and 2015. By the end of 2014, City BET rates had fallen below target and ceiling rates, and no subsequent reductions occurred for Toronto.

Table 3 - Business Education Tax Reductions 2008-2015 (\$M)

	2008	2009	2010	2011	2012	2013	2014	2015	2008-2015
Commercial:									
Education Tax Rate	1.97%	1.80%	1.66%	1.54%	1.44%	1.36%	1.29%	1.23%	
Education Levy Reduction (\$M)	\$4.1	\$6.5	\$3.0	\$3.0	\$2.7	\$0.6	\$0.1	nil	\$20.0
Industrial:									
Education Tax Rate	2.05%	1.86%	1.70%	1.57%	1.45%	1.39%	1.34%	1.3%	
Education Levy Reduction (\$M)	\$0.5	nil	nil	\$0.3	\$0.2	\$0.1	nil	nil	\$1.1
Total Education Levy Reduction 2008-2015 (\$M)	\$4.6	\$6.5	\$3.0	\$3.3	\$2.9	\$0.7	\$0.1	\$nil	\$21.1

2016-2018

As part of the 2016 Ontario Budget, the Province introduced a number of property tax policy changes, including changes "to ensure the ongoing integrity of education property revenues". As a result of these changes, together with reassessment impacts, education taxes in Toronto increased by \$90.8 million from 2016-2018, as shown in the table below.

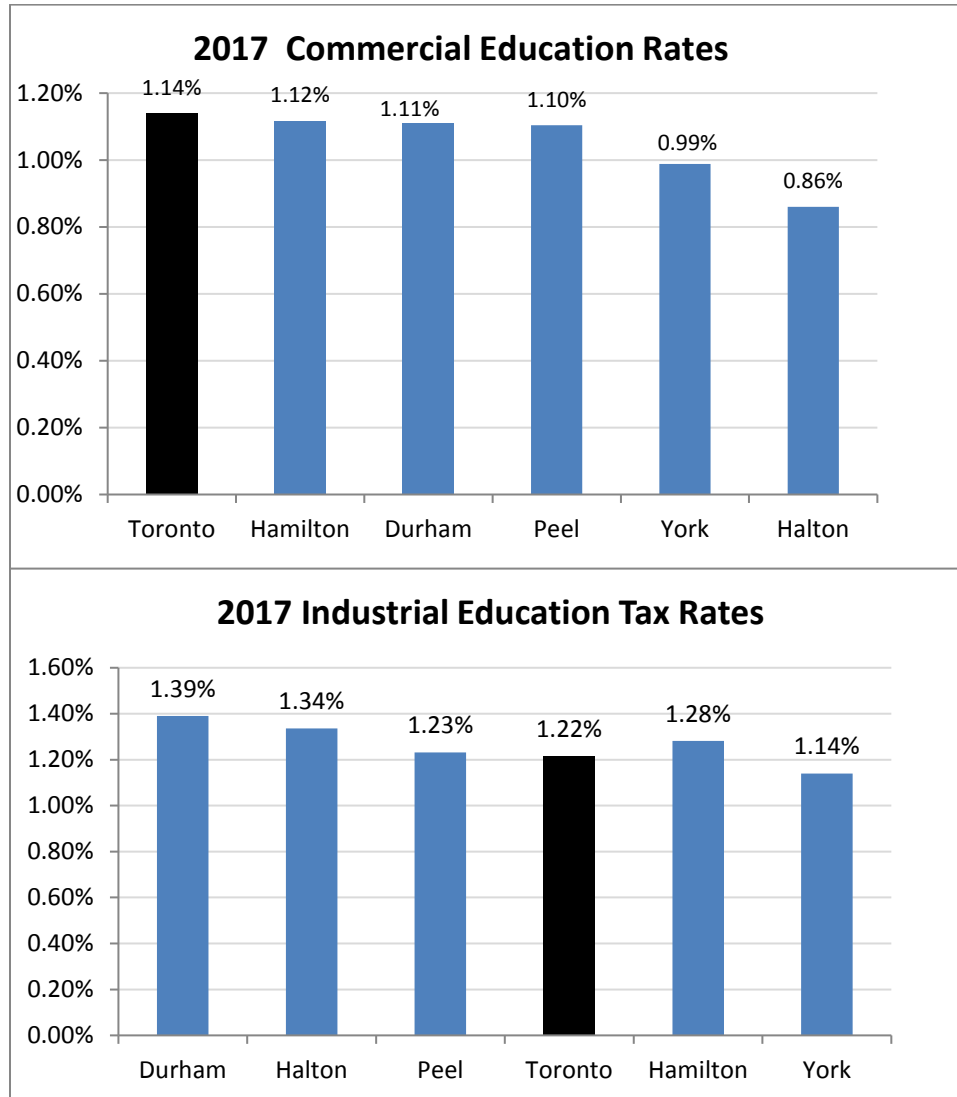
Table 4 - Business Education Tax Increases 2016-2018 (\$M)

	2016	2017	Prelim. 2018	Cumulative 2016-2018
Commercial:				
Education Tax Rate	1.18%	1.14%	1.09%	
Education Levy Increase (\$M)	\$8.4	\$46.9	\$35.5	\$90.8
Industrial:				
Education Tax Rate	1.25%	1.22%	1.16%	
Education Levy Increase (\$M)	nil	nil	Nil	Nil
Total Education Levy Increase 2016-2018 (\$M)	\$8.4	\$46.9	\$35.5	\$90.8

Business Tax Rate Comparison

The following charts provide a comparison of 2017 BET rates for the Greater Toronto and Hamilton Area municipalities for commercial and industrial properties:

Chart 5 – GTHA Business Tax Rate Comparison (2017)



Additional Commentary:

In a December 2017 report prepared by Adam Found of Trent University and Peter Tomlinson of the University of Toronto for the Toronto Financial District BIA, entitled: "Ontario's Business Education Tax: Still Indefensible after 20 Years", the authors compare two alternative BET rate policy reform options that could accelerate the removal of BET rate inequities between municipalities in Ontario. A comparison of the two reform options follows:

A **Tax-Cut/Tax Increase Policy** would keep BET revenues at current levels by increasing taxes in municipalities below the average BET rate while lowering taxes in municipalities above the average BET rate. Municipalities, such as Toronto, with rates at or close to the BET average would be minimally affected by this approach. This approach would not result in lowering the large gap between BET rates and residential education rates, which is also a key long-term policy objective stated by the authors.

An **Optimized Ceiling Rate Policy** would establish Halton Region's low commercial BET rate of 0.86% as the new ceiling rate and allow phased-in tax cuts that would result in 99% of municipalities to be at the same BET rate by the end of the phased-in period. Some non-urban municipalities accounting for approximately 1% of the Province's assessment base have rates below Halton's commercial BET rate. The report estimates that this approach could cost the Province approximately \$1 billion per year in forgone revenue.

This approach would lower education taxes for the City of Toronto and also help to reduce the gap between BET rates and residential education rates. It would also significantly improve the competitiveness of the City of Toronto in relation to municipalities with low BET rates such as the Regional Municipalities of York and Halton. The key downside would be that the Province would receive declining education revenues during the phased-in period.

Prepared by: David McLeod, Senior Financial Analyst, Corporate Finance, Tel: (416) 392-4317, Email: David.McLeod@toronto.ca

Further information: Adir Gupta, Director, Financial Strategies & Policy, Corporate Finance, Tel: (416) 392-8071, Email: Adir.Gupta@toronto.ca

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