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2018 OPERATING BUDGET BRIEFING NOTE

Reductions of Non-Residential to Residential Property Tax Ratios

Issue/Background:

In late 2005, Council approved a comprehensive property tax policy, entitled "Enhancing Toronto's Business Climate – It's Everybody's Business". The tax policy was designed to improve the business climate in the City and enhance the business competitiveness with the surrounding municipalities by reducing the tax ratio to 2.5 by 2020 for the multi-residential class and the general business classes, and by 2015 for small businesses.

The policy of reducing tax ratios, implemented since 2006, was accomplished by (i) limiting the budget-related tax increases on these classes to 1/3 of that for the residential class (as opposed to 1/2 mandated through Provincial legislation); and (ii) shifting part of the tax burden from these classes onto the residential class.

The planned shift in the tax burden from non-residential tax classes to the residential tax class continued from 2006 to 2016, as illustrated in Table 1. The small business target tax ratio of 2.5 was achieved in 2015, according to the plan, and has slightly decreased further over the last two years.

Despite market changes, including a resurgence in demand for commercial space downtown, these policies remain relevant, and consistent with the requirements of provincial regulations.

In order to remain competitive internationally, within the GTA, and with residential development alternatives, continued progress on tax ratios is required. A comparison of commercial tax rates with surrounding municipalities is shown in Appendix 1. To further attract commercial development, the City has programs such as the IMIT Tax Increment Equivalent Grant program to rebate taxes on new commercial and industrial development, and development charges exemptions for commercial and industrial developments. These programs are the subject of reports at the January 24th Executive Committee meeting. As the ratios continue to improve, there will be an opportunity to re-evaluate the continued need for these other programs.

Tax Policy Changes in 2018

In 2017, the Province announced a freeze in the municipal tax burden on the Multi-Residential property for municipalities whose tax ratio for that class was above 2.0. In 2017 and 2018, the City applied a commercial class tax increase of one-half of the residential tax rate increase (vs one-third in previous years). These actions resulted in a slowing down of the City's tax ratio reduction plan, with an estimated revised target date of 2023, instead of 2020, to achieve a ratio of 2.5-times the residential rate, as shown in the Table 1.

Table 1 – Non-Residential Property Tax Ratios in relation to Residential Property Tax Class

<table>
<tr><th>Tax Class</th><th>Historic</th><th colspan="8">Actual</th><th>Projected</th><th>Original Target</th><th>Revised Projection</th></tr>
<tr><td></td><td>2006</td><td>2010</td><td>2011</td><td>2012</td><td>2013</td><td>2014</td><td>2015</td><td>2016</td><td>2017</td><td>2018</td><td>2020</td><td>2023</td></tr>
<tr><td>Commercial</td><td>3.68</td><td>3.26</td><td rowspan="2">3.23</td><td rowspan="2">3.17</td><td rowspan="2">3.12</td><td rowspan="3">3.07</td><td rowspan="3">;
3.00</td><td rowspan="3">2.90</td><td>2.85</td><td>2.81</td><td rowspan="3">2.50</td><td rowspan="2">2.50</td></tr>
<tr><td>Industrial</td><td>4.09</td><td>3.26</td><td>2.83</td><td>2.79</td></tr>
<tr><td>Multi-Residential</td><td>3.63</td><td>3.31</td><td>3.31</td><td>3.26</td><td>3.18</td><td>2.66</td><td>2.46</td><td>2.0</td></tr>
<tr><td>Small Business</td><td>n/a</td><td>2.97</td><td>2.93</td><td>2.81</td><td>2.76</td><td>2.63</td><td>2.50*</td><td>2.50</td><td>2.49</td><td>2.44</td><td>2.50</td><td>2.35</td></tr>
</table>

*Small business target tax ratio of 2.5 achieved in 2015

Further Tax Reduction Options and Impacts:

Any tax ratio reduction of the non-residential tax classes will result in a shift in tax burden to the residential class. As well, any accelerated ratio reduction of one tax class will result in a shift in tax burden to all other tax classes. The multi-residential tax freeze policy in 2017 and 2018 resulted in a ratio reduction for the multi-residential tax class from 2.9 in 2016 to 2.66 in 2017 and to 2.46 in 2018, shifting tax burden to the remaining classes. Assuming the multi-residential freeze policy continues for the remaining 2 years of the current re-assessment cycle, a tax ratio of 2.0 for the multi-residential tax class can be achieved in 2020.

If the tax ratios of the remaining non-residential tax classes were to be set at 2.5 in 2019 (based on 2018 information), the tax impact would be an estimated shift in tax burden to the residential tax class of $78 million, corresponding to an additional 3.5% residential tax increase, as shown in Table 2. A 3.5% increase on the average residential home in Toronto for 2019 is estimated to be $99.

Table 2 - Financial Impact of achieving Tax ratio of 2.5 in 2019

	Tax Levy Impact $ Million	Tax Impact %
Residential	78.2	3.5%
Multi Residential	(0.0)	N/A
Commercial	(70.2)	-4.9%
Industrial	(7.3)	-6.9%

If the City were to lower the non–residential tax ratio to 2.0 in 2019 (based on 2018 information), the estimated policy tax impact would be a shift of $268 million to the residential tax class, corresponding to an additional 12% residential tax increase as shown on Table 3. A 12% tax increase for the average residential home in Toronto is about $339.

Table 3 - Financial Impact of achieving Tax ratio of 2.0 in 2019

	Tax Impact $ Million	Tax Impact %
Residential	268.4	12%
Multi Residential	0.0	N/A
Commercial	(246.3)	-17%
Industrial	(20.1)	-19%

Tax Ratio Targets

As of 2018, the City's business ratios are at approximately 2.8. To achieve the target tax ratio of 2.5 by 2023 would result in an estimated average annual tax impact on the residential class of 0.7%, in addition to any CVA related shifts, other policy adjustments and budgetary levy increases.

After a business ratio of 2.5 is achieved in 2023, moving to a ratio from 2.5 to 2.0 by 2028 would result in an estimated average annual tax impact on the residential class of 1.2%. These estimates should be considered as order of magnitude only due to the unpredictability of reassessment changes over such period of time.

Table 4 – Target Tax Ratios

	2018 Projected Ratio	2020 Target Ratio	2023 Target Ratio	Average Annual Impact %	2028 Target Ratio
Residential	1.0	1.0	1.0	0.7%	
Multi Residential	2.46	**2.0**	2.0		2.0
Commercial	2.81	2.69	**2.5**	-1.0%	2.0
Industrial	2.83	2.70	**2.5**	-1.4%	2.0
Small business	2.44	2.5	2.5	nil	2.0

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Appendix 1
Comparison of 2017 Commercial Office Property Tax Rates