EX36.7

Attachment 1: Tax Policy Public Consultation PowerPoint Presentation

Tax Policy Public Consultation

Where do we go from here?

City of Toronto
May 22, 2018

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Overview

- Welcome and Introductions
- Scope and Assumptions/Background
- Tax Policy Considerations:
  - ❑ Business Tax Rates
  - ❑ Property Tax Fairness
  - ❑ Property Tax Protection for Business
  - ❑ Graduated Tax Rates
  - ❑ Protecting Small Businesses
  - ❑ Protecting Business Tenants
  - ❑ Vacant/Excess Land Tax Classes

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DirectPoll

Your feedback is important to us and we appreciate your participation. The poll is anonymous and voluntary.

Results from each question will be shown in real-time.

If you would like to contribute, please go to

http://etc.ch/nnHg

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Scope and Assumptions

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Scope and assumptions

- Focus is on tax policy approaches for business properties:
  - Commercial, Industrial and Multi-Residential
- Toronto supports Current Value Assessment (CVA) approach to taxation
- Toronto Council has committed to reducing business tax ratios consistent with "*Enhancing Toronto's Business Climate*"
- Some form of property tax protection for business may be required given the rapidly accelerating real estate market in Toronto

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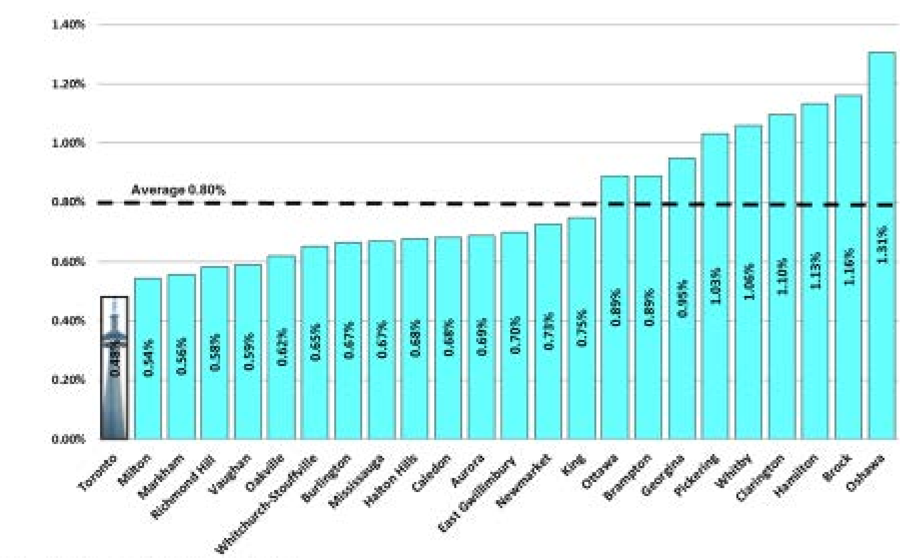
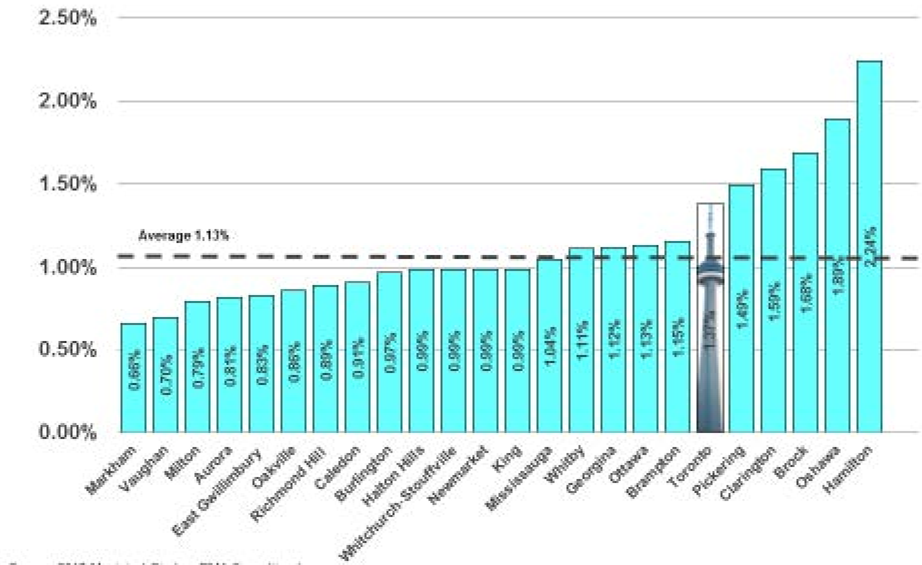
2017 Residential Property Tax Rates



Source: 2017 Municipal Study – BMA Consulting Inc.

2017 Commercial Property Tax Rates



Source: 2017 Municipal Study – BMA Consulting Inc.

Extraordinary Increases in Assessment

- Result of rapidly accelerating real estate market
- Significant impacts experienced by commercial property owners and their tenants
- Council requests broad consultation to determine future course

Property Class	Tax Decrease	Tax Increase (2017)			
		0% to 10%	10% to 50%	50% to 100%	> 100%
Commercial	14,529	20,785	4991	306	118
Industrial	1,835	1,742	134	33	4
Multi-Residential	2,006	1,755	180	16	9
Total	**18,370**	**24,282**	**5,305**	**355**	**131**

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Tax Policy Options for 2019 and Beyond

Considerations:

- Protection against excessive increases may continue to be necessary
- What property types should be protected?
- Tax policies must consider impacts on property owners *and* business tenants
- Tax policies must consider future reassessment year impacts (e.g. 2021)

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Business Tax Rates

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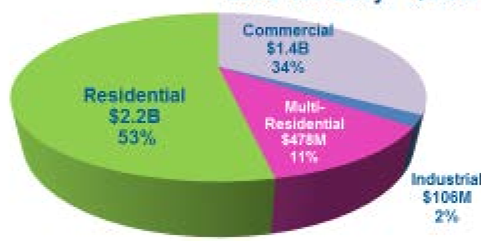
Tax Ratios

- Tax Ratio is the ratio of the tax rate for a property class in comparison to the residential tax rate (Ratios relate to the *municipal* portion of taxes)

$$\frac{\text{Commercial Tax Rate}}{\text{Residential Tax Rate}} = \frac{1.3088002\%}{0.4655054\%} = \textbf{Commercial tax ratio is 2.8 X}$$

- *City of Toronto Act* mandates that tax ratios cannot be increased



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Tax Ratio Reductions for Business

- *Enhancing Toronto's Business Climate (2005)* endorsed reducing tax ratios within the business classes (C, I & M-R) to 2.5-times the residential tax rate by 2020 (revised to 2023 in 2017) and to reaching a 2.5 ratio target by 2015 for the residual commercial (small business) class

Toronto	2006	2009	2011	2014	2015	2017	2018	2023 Target
Commercial	3.68	3.37	3.23			2.85	2.81	2.50
Industrial	4.09	3.55		3.07	3.00	2.83	2.79	
Multi-Residential	3.63	3.38	3.31			2.66	2.46	2.00
Small Business	n/a	3.26	2.93	2.63	2.50	2.49	2.44	2.35

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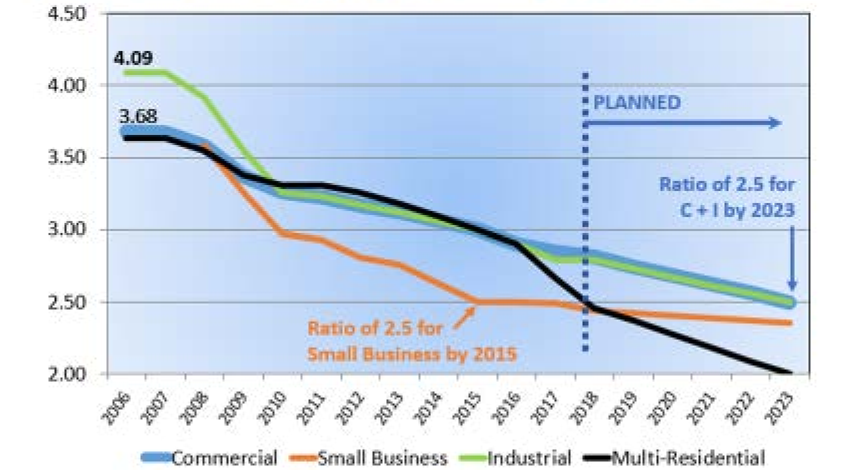
Tax Ratio Progress – Toronto 2018



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Questions – Business Tax Rates

1. **Should Toronto continue to reduce the difference between tax rates for business properties vs. residential properties?** (i.e. lowering business tax rates as a means of enhancing business competitiveness within GTHA municipalities)
   - ❑ Yes
   - ❑ No
   - ❑ Uncertain

2. **Should progress in reducing high business tax rates be:**
   - ❑ Accelerated?
   - ❑ Slowed down?
   - ❑ Neither - maintain current targets (i.e. 2.5-times by 2023)

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Property Tax Fairness

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Property Tax Fairness

- Tax policy measures put in place in 1998 (e.g. capping/claw-back) were intended as temporary measures to smooth the transition to CVA, but have maintained inequities in taxation levels
- Under the Ontario Fair Assessment System, property tax is calculated by multiplying the CVA of a property by the tax rate for the class (i.e. full CVA taxation)
- Progress has been made moving properties to full CVA:

2017	Total #	Full CVA	Capped	Claw-back
Commercial	39,731	83%	10%	7%
Industrial	3,741	82%	3%	15%
Multi-Residential	3,966	93%	1%	6%
All classes:	**47,438**	**84%**	**9%**	**8%**

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Questions – property tax fairness

3. Is fairness achieved when all properties are taxed at full CVA taxation levels?
   - ❑ Yes ❑ No ❑ Don't know/Uncertain

4. Should tax policies be designed to bring properties to full CVA taxation levels?
   - ❑ Yes ❑ No ❑ Don't know/Uncertain

5. Once all properties are at full CVA taxation, should tax protection against CVA-related increases be continued?
   - ❑ Yes ❑ No ❑ Don't know/Uncertain

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Property Tax Protection

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Tax Capping Policies: 2017 and 2018

2017:

- Increase in capping limit to 10% of prior year full CVA taxes (up from 5%) and adopt a $500 threshold to move properties within this threshold to full CVA taxation
- Properties already at full CVA taxation levels *not* eligible for capping protection

2018:

- Capping limit based on 10% of prior year *annualized* taxes
- Properties no longer held at full CVA – all properties eligible for capping protection
- Broad consultations mandated

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Progress Towards Full CVA Taxation

Questions - limiting tax increases

6. Should protection (limits on allowable increases) be provided to business properties facing large assessment-related tax increases?

- ❑ Yes, for all properties (C, I + MR?)
- ❑ For certain properties – which ones? *(Check all that apply)*
  - ❑ Large office towers?
  - ❑ Small street front retail?
  - ❑ Parking lots?
  - ❑ Large shopping centres?
  - ❑ Large sports facilities?
  - ❑ Industrial properties?
  - ❑ Multi-residential properties?
  - ❑ Only those facing large tax increases (e.g. > 25%?)

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Questions – how to fund protection

7. Limiting tax increases on certain properties creates a shortfall in taxation revenues – how should this shortfall be funded?:

- ❑ By increasing tax rates *within* the tax class (i.e. a rate increase for commercial properties to fund protection for commercial properties experiencing increases
- ❑ By increasing tax rates *across all* classes, including residential (i.e. a general budgetary increase)
- ❑ By withholding a percentage of the tax decrease for only those properties experiencing tax decreases (i.e. claw-back)
- ❑ Other

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Graduated Tax Rates

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Graduated Tax Rates

- Currently, a lower commercial tax rate applies to the first \$1,000,000 of assessment and a higher tax rate applies to any assessment > \$1,000,000. This provides some measure of tax relief for lower valued commercial properties
- Currently 36,400 properties (within the Commercial Residual tax class) benefit from graduated rates
- Target tax ratio of 2.5 for Commercial Residual class reached in 2015
- Current tax differential between Band 1 and Band 2 rates (14%) perceived to be ineffective at providing relief for small business

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2018 Commercial Residual Class Profile

2018 Assessment Portions	# of Properties	Total Assessment ($ B)
Assessment above 10 million	622	14.1
Between 8 - 10 million	356	3.2
Between 6 - 8 million	717	4.9
Between 5 - 6 million	489	2.6
Subtotal above 5 million	2,184	24.9
Between 4 - 5 million	693	3.1
Between 3 - 4 million	1,128	3.9
Between 2 - 3 million	2,162	5.3
Between 1 - 2 million	5,532	7.9
Below 1 million	24,689	9.3
Subtotal below 5 million	34,204	29.5
TOTAL	36,388	54.4

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Graduated Tax Rates

- Changes in graduated rates will cause tax impacts on other properties within the class. For example:
  - Increasing the Band 1 threshold from $1M to $2M and increasing the rate differential from 14% to 22% would require a 3.6% tax rate increase in Band 2 rates
  - Impact on a small retail property with CVA = $1.2M: $1,234 reduction in current year taxes
  - Impact on a medium office building with CVA = $5M: $1,837 reduction in current year taxes
  - Even with graduated rates, protection against tax increases may still be required

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Questions – graduated rates

8. Should graduated tax rates within commercial be continued?
   - ❑ Yes ❑ No ❑ Don't know/Uncertain
9. What should the threshold for Band 1 be?
   - ❑ $1 M ❑ $2 M ❑ $5 M
10. If limits on tax increases apply, are graduated rates still needed?
    - ❑ Yes ❑ No ❑ Don't know/Uncertain
11. Should the rate differential between Band 1 and Band 2 be increased to provide more benefit to properties with lower-valued assessments, even if this resulted in higher rates for any assessment above the $1M threshold?
    - ❑ Yes ❑ No ❑ Don't know/Uncertain

Protecting Small Businesses

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Protecting Small Businesses

- City Council directed staff to "*undertake a review of various tax policy tools that can be used to provide relief to small business owners facing unsustainable Current Value Assessment-related tax increases*" (Item MM35.16)
- Staff report (Item EX30.5: *Tax Policy Tools to Support Businesses*) identified:

  The 2017 reassessment and the resulting property tax increases, especially for properties no longer eligible for capping protection, raised serious concerns amongst property owners, tenants and business operators over the threat posed to the financial viability of entire neighbourhoods and retail districts.

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Protecting Small Businesses

OPTION 1: Small Commercial Tax Class

- Define a new "Small Commercial Property Class" to include:
  - ➢ All properties with total assessed value less than $5 million, ***and***
  - ➢ Classified within the Residual Commercial class (excludes Shopping Centre, Parking Lots and Large Office classes)
- Focus capping protection exclusively on this class and fund capping protection from within the broad commercial class
- Properties in General Commercial, industrial and multi-residential would be billed at full CVA (no capping protection)

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Protecting Small Businesses

OPTION 2: Tax Deferral Program

- Create a tax deferral program for businesses
- All properties billed at full CVA
- Properties within the commercial residual class eligible to apply (annual application)
- City would defer amount of any tax increase > 10%, with interest applied to deferred amounts
- Owner agrees to repay deferred amounts + interest upon the sale of property or change in use

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Protecting Small Businesses

OPTION 3: Targeted Tax Relief Rebate Program

- Create a targeted tax relief rebate program for businesses facing large increases (based on demonstrated financial need)
- All properties billed at full CVA
- Properties facing tax increases above some percentage (25%?) may apply to receive rebate of any taxes above the percentage via an annual application
- Funding for rebates and additional administration costs would be recovered through higher rates within the tax class or across all classes

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Questions – protecting small business

12. Should protection against large tax increases be provided to only small (i.e. low-valued) business properties, with all others moving to full CVA (Option 1)?

   ❑ Yes ❑ No ❑ Don't know/Uncertain

13. Should tax protection be offered through a deferral program and annual application (Option 2)?

   ❑ Yes ❑ No ❑ Don't know/Uncertain

14. Should protection for small business be offered as a rebate to only those properties demonstrating financial need (Option 3)?

   ❑ Yes ❑ No ❑ Don't know/Uncertain

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Protecting Business Tenants

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Protecting Business Tenants

- Property taxes are the responsibility of the property owner. Business tenants may be directly responsible to pay taxes (under a net lease) or taxes may be included as a portion of monthly rent (under a gross lease)
- Where taxes are the tenant's responsibility under a net lease, any tax increase is passed on directly to the tenant
- Tax increases may also be passed on to tenants under gross leases through rent increases (on lease renewal)
- Where limits on tax increases apply, tenants under both net leases and gross leases are protected against excessive tax increases

Questions – Protecting Business Tenants

15. Should tax policy measures be designed to ensure that business tenants are protected against large tax increases?

- ❑ Yes, where possible
- ❑ No, this is a landlord/tenant matter
- ❑ Don't know/uncertain

Vacant/Excess Land tax classes

- Currently, the tax rate for commercial vacant/excess land is 30% lower than the commercial tax rate
- The tax rate for the industrial vacant/excess land is 35% lower than the industrial rate
- Eliminating these rate reductions would generate additional tax revenue of $10 million/year

Question – Vacant/Excess Lands

16. Would you support eliminating the tax rate reduction for commercial and industrial excess land tax classes?

❑ Yes ❑ No ❑ Don't know/Uncertain

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Have your say!

Complete our online survey at:

cotsurvey.chkmkt.com/propertytaxpolicy

(until June 1, 2018)

Send us your views/opinions in writing:

2018TaxConsultation@toronto.ca

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Thank You for Listening.
Questions? Opinions?
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