



## REPORT FOR ACTION

# 2020 Education Property Tax Levy and Clawback Rate By-Law and COVID-19 Tax Relief By-Law Amendments

**Date:** April 27, 2020

**To:** City Council

**From:** Chief Financial Officer and Treasurer

**Wards:** All

## SUMMARY

This report recommends adoption of the 2020 education tax rates and property tax levy for school purposes for the City of Toronto, as required by the Education Act. The education tax rates are prescribed by the Ministry of Finance annually by provincial regulation and must be adopted by municipalities each year by by-law. This report also recommends the 2020 percentage of the tax decreases (the 'clawback' rates) that are required to be withheld to fund the legislatively mandated capping of property tax increases on properties in the commercial, industrial and multi-residential property classes, as permitted by the City of Toronto Act, 2006. It has been long standing City Council policy to adopt clawback rates sufficient to fund forgone revenues arising from its adopted tax increase capping policy, and as provided for by legislation.

As a result of the property tax relief measures implemented to assist residents and businesses impacted by COVID-19 there are various by-laws and Chapter 767 of the City of Toronto Municipal Code that require amendments.

## RECOMMENDATIONS

The Chief Financial Officer and Treasurer recommends that:

1. City Council adopt the 2020 tax rates for school purposes, as shown in Column II, which will raise an education tax levy on rateable properties for 2020 of \$2,273,085,976 in accordance with provincial regulation O.Reg. 400/98 as amended, prescribing such rates for the City of Toronto, of which \$4,612,130 is to be retained by the City pursuant to Ontario Regulation 121/07:

Column I	Column II
Property Class	2020 Tax Rates for Education Levy
Residential	0.153000%
Multi-Residential	0.153000%
New Multi-Residential	0.153000%

Column I	Column II
Property Class	2020 Tax Rates for Education Levy
Commercial	0.980000%
Commercial (New Construction)	0.980000%
Commercial Residual	0.980000%
Commercial Residual I (New Construction)	0.980000%
Industrial	1.067220%
Industrial (New Construction)	0.980000%
Pipelines	1.250000%
Farmlands	0.038250%
Managed Forests	0.038250%

2. City Council adopt the reductions in tax decreases for the 2020 taxation year on properties in the commercial, industrial and multi-residential property classes by the percentage of the tax decrease set out in Column II in order to recover the revenues foregone as a result of capping, and to allow the decrease percentages set out in Column III:

Column I (Property Class)	Column II (Clawback Percentage)	Column III (Allowable Decrease)
Commercial	60.545902%	39.454098%
Industrial	64.194131%	35.805869%
Multi-residential	42.809624%	57.190376%

3. City Council authorize amendments to City of Toronto By-law 1673-2019 (2020 Interim Tax Levy), to revise the existing interim bill payment due dates as set out below for each of property tax accounts on the eleven (11) instalment pre-authorized tax payment plan (PAP), the regular instalment option, and the six (6) instalment PAP:

11-Instalment Pre-Authorized Interim Tax Bill Payment Plan		
Instalments	Existing Due Dates	Revised Due Dates
Instalment 1	February 18, 2020	no revision
Instalment 2	March 16, 2020	no revision
Instalment 3	April 15, 2020	June 15, 2020
Instalment 4	May 15, 2020	Combined with Final 2020 billing
Instalment 5	June 15, 2020	Combined with Final 2020 billing
Regular or 6-Instalment Pre-Authorized Interim Tax Bill Payment Plan		
Instalment 1	March 2, 2020	no revision
Instalment 2	April 1, 2020	June 1, 2020
Instalment 3	May 1, 2020	July 2, 2020

2-Instalment Pre-Authorized Interim Tax Bill Payment Plan		
Instalment 1	March 2, 2020	no revision

4. For the purpose of spreading out as nearly equally as practical the various instalment due dates (including combining portions of the interim levy and the final tax levy for the eleven instalment PAP as set out in Recommendation 3), City Council authorize amendments to City of Toronto By-law 205-2020 (Tax Levy By-law for 2020) to revise the existing final bill payment due dates as set out below for each of property tax accounts on the eleven (11) instalment PAP, on the regular instalment option, on the six (6) instalment PAP and on the two (2) instalment PAP:

11-Instalment Pre-Authorized Final Tax Bill Payment Plan		
Instalments	Existing Due Dates	Revised Due Dates
Instalment 1	July 15, 2020	no revision
Instalment 2	August 17, 2020	no revision
Instalment 3	September 15, 2020	no revision
Instalment 4	October 15, 2020	no revision
Instalment 5	November 16, 2020	no revision
Instalment 6	December 15, 2020	no revision
Regular or 6-Instalment Pre-Authorized Final Tax Bill Payment Plan		
Instalment 1	July 2, 2020	August 4, 2020
Instalment 2	August 4, 2020	September 1, 2020
Instalment 3	September 1, 2020	October 1, 2020
2-Instalment Pre-Authorized Final Tax Bill Payment Plan		
Instalment 1	July 2, 2020	August 4, 2020

5. City Council authorize amendments to the City of Toronto Municipal Code Chapter 767, Taxation, Property Tax, § 767-7 Penalties and Interest to suspend the application of penalties and interest under this section during the period between March 16, 2020 and May 15, 2020, to reflect a 60-day grace period on the payment of property taxes as implemented by the Mayor's Economic Support and Recovery Task Force related to the COVID-19 pandemic.

6. City Council authorize amendments to the City of Toronto Municipal Code Chapter 767, Taxation, Property Tax, Chapter 844 Waste Collection, Residential Properties, and Chapter 849, Water and Sewage Services and Utility Bill to change the August 31 application deadline for the Tax Deferral and Tax Cancellation for Low-Income Persons program, the Single family residential low income relief program, and the Water rebate

for eligible low-income disabled persons and low-income seniors program respectively to October 30, 2020 as the new deadline for the 2020 tax year.

7. City Council authorize the introduction of the necessary bills in Council to give effect to Council's decision.

## **Implementation Points**

In accordance with various legislative requirements, City Council must annually adopt the following by-laws: (i) the municipal levy; (ii) the education levy; and (iii) the claw-back rate for properties experiencing property tax decreases in the commercial, industrial and multi-residential property classes. These by-laws are required to enable the City to issue the final property tax bills for the year, for both municipal and school purposes, and may be combined into one by-law. Traditionally, the City adopts its municipal tax levy by-law in February, and amends it in April to adopt the education levy and clawback rates.

City Council at its meeting of February 19, 2020, enacted By-law 205-2020 thereby adopting the 2020 municipal property tax rates and the municipal tax levy arising from such rates.

On January 22, 2020, the Minister of Finance filed O.Reg 6/20 amending O.Reg 400/98 under the Education Act to prescribe the 2020 tax rates for school purposes. Accordingly, this report recommends adoption of the tax rates for school purposes, as prescribed. City Council must adopt the prescribed education tax rates in accordance with the regulation and enact a by-law levying them. The clawback rates cannot be calculated for the capped property classes until such time as the City has the final education rates for the year.

As a result of the current COVID-19 pandemic and declared emergency, the Mayor's Economic Support and Recovery Task Force announced a 60-day grace period for payment of interim taxes. As the 2020 interim tax levy by-law (By-law 1673-2019) set due dates, and as City of Toronto Municipal Code Chapter 767 imposes interest and late payments on all taxes that are past due, this report recommends amendment of the interim due dates and a suspension of interest and penalties on overdue property taxes during the period of March 16 – May 15, 2020. It also recommends extended due dates for the final tax billing.

## **FINANCIAL IMPACT**

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There is no direct financial implication to the City of Toronto's Budget arising from adoption of education tax rates. The City is required by legislation to levy and collect property taxes for school purposes at the tax rates prescribed by the Minister of Finance. The 2019 education levy on rateable assessment will be \$2,273,085,976 based on the recommended 2020 education rates, of which \$4,612,130 is to be retained by the City pursuant to Ontario Regulation 121/07.

The average household assessed at \$703,232 in 2020 will pay an education tax bill of \$1,076, compared to \$1,069 in 2019 (a \$7 increase). A detailed breakdown of 2020 municipal and education property taxes on the average house is presented in Table 2 of this report.

There is also no direct financial implication to the City of Toronto arising from the clawback rates recommended in this report. The foregone revenue resulting from the legislated limit on Current Value Assessment (CVA) related tax increases on the commercial, industrial and multi-residential property tax classes is funded by withholding (clawing-back) a portion of the decrease that would otherwise be realized within each class, with no budgetary funding implications for the City.

In terms of financial impacts related to the COVID-19 pandemic property tax relief provisions, the 60-day grace period for property tax payments and extension of due dates will result in lost interest revenue on invested amounts estimated at \$8.2 million, and further lost revenue from late payment penalties of approximately \$2.8 million. These revenue losses represent unbudgeted financial implications, and will be addressed within the context of the City's larger recovery plan.

## **DECISION HISTORY**

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At its meeting of February 19, 2020, City Council adopted the 2020 municipal property tax levy, property tax capping policies and tax rates (items [EX13.1](#) and [EX13.1a](#)). The tax rate report also authorized the Chief Financial Officer and Treasurer to report in April to Executive Committee, or directly to Council or a special meeting of Council if necessary, on the 2020 tax rates for school purposes, and the 2020 percentage of the tax decreases required to recover the revenues foregone as a result of the capping limit on properties in the commercial, industrial and multi-residential property classes (the 2020 clawback rates).

## **COMMENTS**

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### **2020 Education Tax Rates**

*The Education Act* requires every municipality in each year to levy and collect taxes for school purposes at the education tax rates prescribed by the Minister of Finance. Ontario Regulation 400/98 as amended, made under the *Education Act*, prescribes the education tax rates for all municipalities.

Education tax rates may also reflect shifts in tax burdens between municipalities due to current value reassessment and other assessment related adjustments, as well as changes in tax burden due to an increase in the education levy.

Since the introduction of Current Value Assessment (CVA) and a uniform province-wide residential and multi-residential education tax rate in 1998, municipalities whose residential property values have increased at a rate greater than the provincial average – such as Toronto – will experience a CVA-related education tax increase. Also, since

2016, as announced in the 2016 Ontario Provincial Budget, the province is making adjustments to education taxes to "ensure that when calculating tax rates, municipalities and the Province would be able to address any unintended effects due to in-year property assessment changes, such as assessment appeal losses" and to "ensure the ongoing integrity of education property tax revenues", meaning an increase in education property taxes province-wide.

Table 1 below provides a reconciliation of the 2020 education tax levy for Toronto by property class. The Province will receive \$1.956 million from additional education tax levies arising from assessment growth in the City, largely driven by condominium development and new commercial development. The increase in the education levy for 2020 will be \$29.06 million, for a combined education tax levy change in Toronto of \$31.01 million.

**Table 1: 2020 Education Taxes**

Property Class	2019 Education Levy '000	2019 Levy Change from Assessment Growth '000	2019 Year End Education Levy '000	2020 Education Levy Change '000	2020 Prescribed Education Levy '000
Residential	\$832,196	\$11,505	\$843,700	\$5,299	\$848,999
Multi-Residential	\$74,632	\$738	\$75,369	\$3,248	\$78,618
New Multi-Residential	\$4,096	\$1,629	\$5,725	\$183	\$5,909
Commercial	\$1,146,156	-\$20,245	\$1,125,911	\$19,274	\$1,145,185
New Commercial	\$86,098	\$8,095	\$94,193	-\$461	\$93,732
Industrial	\$93,588	\$200	\$93,788	\$1,577	\$95,365
New Industrial	\$600	\$16	\$616	-\$18	\$598
Pipelines	\$4,698	\$26	\$4,724	-\$47	\$4,677
Farmlands	\$9	-\$7	\$2	-\$0	\$2
Managed Forests	\$2	\$0	\$2	-\$0	\$2
<b>Total</b>	<b>\$2,242,074</b>	<b>\$1,956</b>	<b>\$2,244,031</b>	<b>\$29,055</b>	<b>\$2,273,086</b>

Table 2 summarizes the tax impacts on the average house in Toronto with an assessed value of \$703,232. The average 2020 household impact arising from the municipal portion of taxes of \$127.79 (a 4.24% increase) was reported to City Council in February, 2020 during adoption of its budget. The 2020 education tax rates, prescribed by the Province and recommended in this report will result in \$6.71 (0.63%) increase in education taxes on the average home in Toronto. The total 2020 municipal and education levy impact for the average household in Toronto will be \$134.50 or a 3.29% increase on the total bill.

**Table 2: 2020 Tax Impacts on Average House (CVA \$703,232)**

	2019 Taxes	2020 Taxes	Increase, \$	Increase, %
City	\$ 3,014	\$ 3,141	\$ 128	4.24%
Education	\$ 1,069	\$ 1,076	\$ 7	0.63%
Total	\$ 4,083	\$ 4,217	\$ 135	3.29%

### **Business Vacancy Rebate and Reduction Programs**

In 2017, City Council adopted the phasing out of the vacancy rebate program for commercial and industrial properties, and as of July 2018, the vacancy rebate program was completely eliminated (see Item [EX25.10](#)). The municipal portion of the tax reduction percentage for vacant and excess land within the commercial and industrial tax classes has been maintained at 30% for commercial properties and 35% for industrial properties for the 2020 taxation year.

In 2019, the Province announced it will be phasing-out the education portion of the vacant and excess land tax class reductions for commercial and industrial properties. In 2019, the education property tax portion of the vacancy rebate reduction was 15 per cent for commercial units / properties and 17.5 per cent for industrial units / properties, and is completely eliminated in 2020.

The impact of the phasing out of education tax reductions for vacant and excess lands in 2020 is \$5.31 million in additional education tax revenue for the Province.

### **Funding Capping Limits (Commercial, Industrial and Multi-Residential Property Classes):**

Legislation mandates a cap on CVA-related tax increases on properties in the commercial, industrial, and multi-residential classes. For the period 2006 – 2016, Council's policy has been to limit reassessment-related tax increases for the commercial, industrial, and multi-residential property classes to 5% of the preceding year's current value taxes.

For the 2017 taxation year, City Council adopted a capping limit based on 10% of the preceding year's current value taxes. Existing policy also provided that properties that had reached their full CVA level of taxation would be removed from the capping and clawback system and would be subject to full CVA taxation.

In 2017, which was the first year of the new reassessment cycle, concerns were raised by many property owners who were experiencing significant CVA related tax increases. For the 2018 taxation year, City Council reinstated capping protection for properties that had reached CVA taxation, and set a tax increase cap of 10% of a property's prior year's tax. City Council has elected to continue these same capping protection

measures for 2019 and 2020 taxation years, by the adoption of [EX2.1](#) and [EX13.1a](#) respectively.

As permitted by current legislation, the capping of tax increases is funded by "clawing back" tax decreases from properties within the same property tax class. Table 3 below sets out the percentage reductions in the tax decreases for 2020 (the "clawback rate") necessary to fund the foregone revenue resulting from the recommended 10% cap on tax increases for 2020. The "allowable decrease" (Column III) represents the percentage of the tax decrease allowed for those properties that are experiencing tax reductions under CVA.

**Table 3: 2020 Clawback Rates**

Column I (Property Class)	Column II (Clawback Percentage)	Column III (Allowable Decrease)
Commercial	60.545902%	39.454098%
Industrial	64.194131%	35.805869%
Multi-residential	42.809624%	57.190376%

### **COVID-19-Related Property Tax Relief Measures**

The Mayor launched an Economic Support and Recovery Task Force to help protect Toronto's economic stability during the COVID-19 pandemic. To minimize the economic impact on Toronto residents and businesses, various measures were announced in order to provide immediate relief for taxpayers. These measures include providing a 60-day grace period, wherein penalties and interest would not be applied to property accounts that may have outstanding balances; extending property tax due dates by this 60 day period for interim property tax payments; amending the 2020 final bill due dates; and extending the due date for the City's Property Tax, Water and Solid Waste Relief Programs to October 30<sup>th</sup> for the 2020 taxation year. The recommendations in this report seek to amend the 2020 Interim Levy By-law, the 2020 Final Tax Levy By- and Municipal Code chapter 767 to reflect this 60-day grace period, providing property tax payers much needed relief during this unprecedented time.

As soon as these tax relief measures were announced, Revenue Services acted to ensure that the 60-day grace period was implemented by suspending the scheduled withdrawal of interim property tax instalments on April 15 and May 15, 2020 for those enrolled in the pre-authorized property tax payment program. Revenue Services also coordinated efforts to suspend cashing of post-dated cheque payments during the 60-day relief period. For all other property tax accounts, including those remitted via the six-instalment pre-authorized payment plan, it is recommended that due dates be revised from the existing April 1 and May 1, 2020 due dates to June 1 and July 2, 2020. Allowing this 60-day grace period for all taxpayers will provide much needed relief during this difficult time.

This report also recommends that, for property owners enrolled in the 11-instalment pre-authorized tax payment program, the two remaining interim instalments be combined with the final 2020 billing, and spread equally over the remaining six instalment due dates. For all other property tax accounts, including those remitted via the six (6) instalment pre-authorized payment plan, it is recommended that the existing July 2, August 4 and September 1, 2020 final bill due dates be revised to August 4, September 1, and October 1, 2020. For owners who pay via the two-instalment pre-authorized plan, the final bill will fall due on August 4, 2020.

This report also recommends that City Council authorize amendments to Chapter 767, Taxation, Property Tax, of the City of Toronto Municipal Code to suspend the application of late payment penalties and interest during the period March 16, 2020 to May 15, 2020, to reflect the 60-day grace period related to the COVIC-19 pandemic.

Further amendments to Chapter 767 Taxation, Property Tax (Article V), as well as Chapter 844 Waste Collection, Residential Properties, and Chapter 849, Water and Sewage Services and Utility Bill of the Municipal Code are also recommended to extend the deadline for applications to the City's property tax, water and solid waste relief programs from August 31 to October 30<sup>th</sup> for the 2020 tax year.

Adopting the recommendations of this report is necessary in order to provide the required authority to issue final 2020 property bills, and to amend property tax due dates and application deadlines for 2020 and to allow for a 60-day grace period during which interest and late payment penalties are suspended.

## **CONTACT**

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## **SIGNATURE**

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