

Heather Taylor  
Chief Financial Officer and TreasurerRevenue Services  
North York Civic Centre  
5100 Yonge St. – Lower Level  
Toronto, ON M2N 5V7Tel: (416) 392-8065  
Fax: (416) 696-3778  
Casey.brendon@toronto.ca  
www.toronto.ca

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## 2021 OPERATING BUDGET BRIEFING NOTE

### Small Business Tax Class

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#### Issue/Background:

- The Budget Committee, at its meeting of January 20, 2021, requested the Chief Financial Officer and Treasurer to prepare a briefing note detailing the necessary considerations required in order to implement a small business property tax subclass.
- The Provincial Budget announcement of November 5, 2020 ([\*Protect, Support and Recover from COVID-19 Act \(Budget Measures\), 2020\*](#)) proposed new authority for municipalities to adopt a special tax subclass and reduced tax rates for small business properties.

#### Key Points:

- Forthcoming provincial regulations under the *Assessment Act* and *City of Toronto Act* are expected to set out:
  - How a reduced tax rate for small business may be funded (i.e., a tax increase spread across all tax classes, including residential (e.g. a budgetary levy increase), or an increase in tax levy on only the commercial class and/or other classes)
  - Limits on the maximum allowable percentage reduction for the small business subclass
  - Restrictions or limitations on eligibility criteria, or requirements for provincial approval of criteria
  - Right of Appeal and provisions for appeals
- The City of Toronto cannot implement a small business class until *after* provincial regulations have been enacted. All the considerations, decisions, implementation steps and timeline outlined below assume the regulations have been enacted.
- Municipality must elect to have the Small Business Class apply by by-law, and effective date of implementation. The by-laws must set out:
  - eligibility criteria (what properties qualify, and criteria or thresholds used to establish eligibility);
  - Applicable tax rate, set as a percentage reduction from the otherwise applicable commercial rate;
  - Process (if any) to be included in the class, including any application/information requirements from owners, due dates, rights of appeal, appellate body and method of appeal.

## **Implementation Considerations and Decisions**

### **1. Develop Eligibility Criteria to determine who qualifies:**

- a. Eligibility may consider:
  - CVA threshold (e.g., small business = CVA < \$1,000,000)
  - Geographic area (e.g., growth areas, designated BIAs, retail avenues, etc.)
  - Physical characteristics (e.g., maximum lot size or Gross Floor Area), no. stories, etc.)
- b. Establish the type and number of properties that qualify based on criteria – which businesses qualify, which do not, (e.g., local bank branches, franchise stores for large chains, any exclusions or exemptions (e.g., parking lots, vacant land), etc.

### **2. Model Total Costs for various Scenarios**

- a. Model total costs of tax relief for various eligibility criteria scenarios at various levels of tax relief (i.e., at 15%, 20% or 25% tax rate reduction) to determine total program costs.

### **3. Determine how total costs of tax relief provided to small businesses will be funded:**

- a. Reduction in overall taxation revenue (i.e., an expenditure that must be funded from the operating budget as a cost)
- b. Tax increase spread across all tax classes, including residential (e.g. a budgetary levy increase) – this has direct budgetary *and* tax rate impacts during the year of implementation.
- c. Tax rate increase on only the commercial class (and/or other classes).

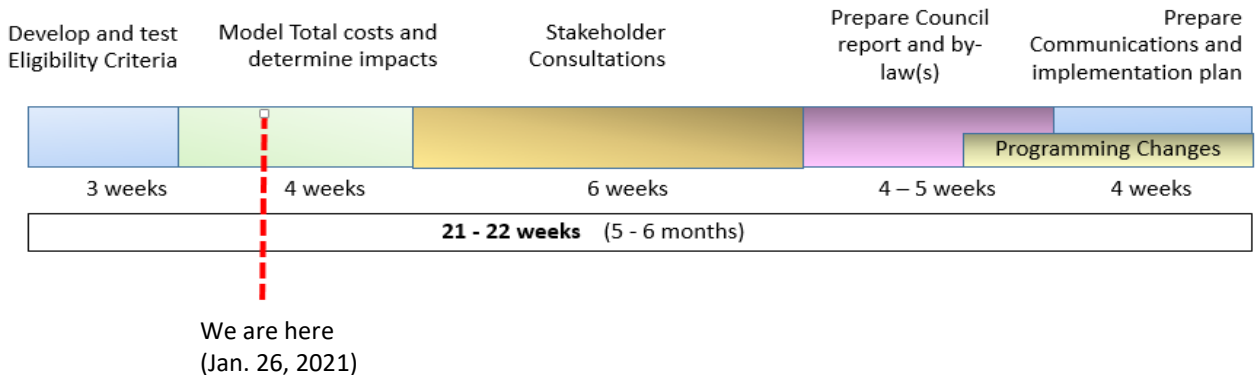
### **4. Model and Understand Financial Impacts**

- a. Estimate tax levy impacts of various scenarios, e.g., how much benefit is provided to small businesses, and what are the resulting tax rate increase and \$ impacts on other businesses or property types.

### **5. Determine how tax class billing will be implemented.**

- a. Depending on all of the above decisions, the tax billing system will need to be programmed to facilitate sending the appropriate tax bills.

## Implementation Steps and Potential Timelines



### Conclusions:

- Key provincial regulations that would allow for the adoption of a small business tax subclass have not yet been enacted, making it impossible to determine financial impacts or possible benefits to business ratepayers prior to budget approval for 2021. Given that Council intends to adopt the budget at its meeting of February 18, 2021, and given the 5-6 month timeline for implementation set out above, it is not possible to proceed with implementation of the tax subclass for the 2021 taxation year.
- Staff will require time to study potential options and model impacts, and to hold consultations with business stakeholders and with Economic Development & Culture division, for a prudent and coordinated approach. The Chief Financial Officer and Treasurer is expected to report back on the adoption of a small business tax class for consideration for 2022 and future years.

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**Prepared by:** Casey Brendon, Director, Revenue Services Division  
416-392-8065 [Casey.brendon@toronto.ca](mailto:Casey.brendon@toronto.ca)

**Further information:** Casey Brendon, Director, Revenue Services Division  
416-392-8065 [Casey.brendon@toronto.ca](mailto:Casey.brendon@toronto.ca)

**Date:** January 26, 2021