

Supplementary Report: Considerations for Implementing a Small Business Subclass

Date: February 1, 2021

To: City Council

From: Chief Financial Officer and Treasurer

Wards: All

SUMMARY

At its meeting of January 27, 2021, in its consideration of [Item EX20.5: Property Tax Policies for 2021](#), the Executive Committee requested that the Chief Financial Officer and Treasurer report directly to the February 2 - 3, 2021 meeting of City Council, detailing the necessary considerations required in order to implement a small business property tax subclass, including the possibility for implementation in 2021.

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.

Item EX20.5 includes the recommendation that the Chief Financial Officer and Treasurer report back during 2021 on the adoption of a small business tax class for consideration for 2022 and future years after studying the potential options and modelling impacts, and after holding consultations with business stakeholders and with Economic Development & Culture division. A planned implementation of the small business property tax subclass in 2022 would ensure that the definition of the subclass reflects a prudent and coordinated approach and is consistent with Council's objectives of fairness and equity in property taxation.

RECOMMENDATIONS

The Chief Financial Officer and Treasurer recommends that:

1. City Council receive this report for information.

FINANCIAL IMPACT

There is no financial impact arising from this report.

The Chief Financial Officer and Treasurer has reviewed this report and agrees with the financial implications as identified in the Financial Impact section.

DECISION HISTORY

At its meeting of January 27, 2021, the Executive Committee adopted [Item EX20.5: Property Tax Policies for 2021](#), including an amendment requesting the Chief Financial Officer and Treasurer to report directly to City Council, detailing the necessary considerations required in order to implement a small business property tax subclass, including the possibility for implementation in 2021.

COMMENTS

The Provincial Budget announcement of November 5, 2020 ([Protect, Support and Recover from COVID-19 Act \(Budget Measures\), 2020](#)) identified a proposed new authority for municipalities to adopt a special tax subclass for small business properties, with eligibility criteria to be established by municipal by-law, to allow reduced tax rates to apply to eligible small business properties.

Toronto has long advocated the need for a small business tax class that could allow tax rate reductions for small and independent businesses that are most directly impacted by market conditions, fluctuating market value assessments and more recently, COVID-19-related business slowdowns and closures. A small business subclass will allow Toronto Council to direct property tax relief in ways that are consistent with Council's objectives and priorities for economic development, in areas where it is needed most, and to benefit business tenants under net leases as well. Although the Provincial Government provided the ability for municipalities to adopt a new tax class for small businesses, regulations have not been released to date.

The regulations under the Assessment Act and City of Toronto Act, 2006 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 the tax levy on only the commercial class and/or other classes), the 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, as well as the right of appeal and provisions for appeals. Rate reductions of up to 35% are expected to be allowed for municipal taxes and the Ministry of Finance may provide matching rate reductions on the provincial education portion of taxes (by request).

The City of Toronto cannot implement a small business class until *after* provincial regulations have been enacted. Once the regulations are implemented, Council must elect to have the Small Business Class apply by by-law and determine the effective date of implementation. The by-law will have to set out the eligibility criteria (what properties qualify, and criteria or thresholds used to establish eligibility), the applicable tax rate by setting a percentage reduction from the otherwise applicable commercial rate and the 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.

Prior to establishing the requirements in the by-law, staff require time to hold consultations with business stakeholders and with Economic Development & Culture to determine the financial impacts of the class, to understand what businesses may be eligible or the potential benefits to small businesses as well as what the impacts will be on the rest of Toronto's businesses and residential taxpayers. This consultation process will provide staff with the ability to complete the following:

- Develop the eligibility criteria to determine who qualifies (i.e., a maximum CVA threshold, geographic area, physical characteristics, and/or establish the type and number of properties that qualify based on criteria - which businesses qualify, which do not).
- Model the total costs for various scenarios at various levels of tax relief to determine total costs of the relief provided.
- Determine how the total costs of tax relief provided to small businesses will be funded.
- Model and understand the financial impacts by estimating the tax levy impacts of various scenarios.
- Determine how the tax class billing will be implemented as the tax billing system will need to be programmed to facilitate sending the appropriate tax bills.

Timing Considerations

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 in Figure 1 below, it is not feasible to proceed with implementation of the tax subclass for the 2021 taxation year.

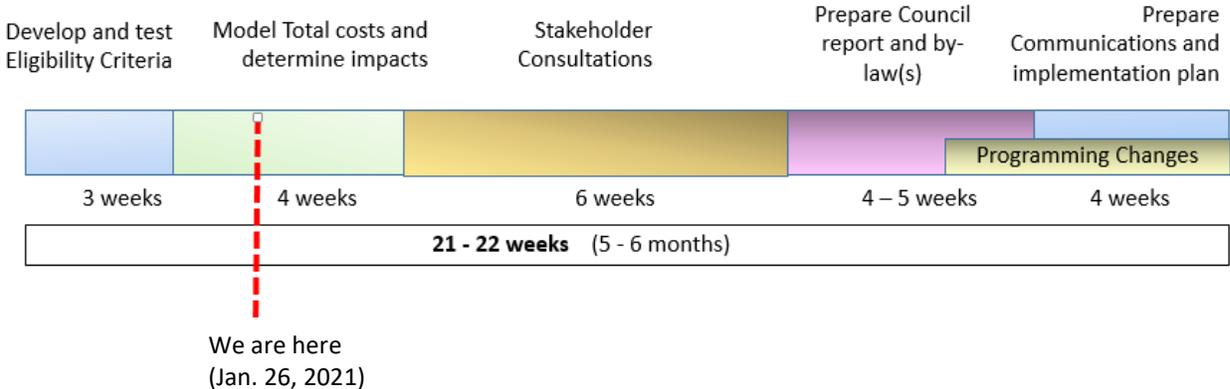
Implementation in 2021 would pose the following risks and challenges:

- Inadequate time to hold consultations with property owners and other business stakeholders (.e.g., Toronto Board of Trade, Toronto Association of Business Improvement Areas, etc.).
- Without having the provincial regulations in place that set out how a small business tax subclass could be funded, City staff are not in a position to assess or quantify budgetary impacts.
- The implementation of a small business class for the 2021 taxation year will almost certainly have significant financial implications that are not currently included in the 2021 operating budget nor addressed within the proposed 2021 property tax rate structure. The total costs of tax relief afforded through a small business class, if implemented in 2021, are therefore considered to be a potentially significant unfunded and unbudgeted expenditure for 2021.
- A decision to implement in 2021 may necessitate a re-opening of Council's approved budget, or at minimum would require tax rates to be restructured and reapproved by Council.

- Any delays in consultations, decision-making or Council approvals could necessitate changes to the tax billing cycle and instalment due dates (expected to be approved by Council at its meeting of February 18, 2021). This could carry the risk of other budgetary impacts on taxation revenue.
- A lack of modelling of impacts or a hastily adopted definition of the eligibility criteria for the small business tax subclass could see unfairness in application of the tax relief, and or could see unintentional benefits conferred on certain businesses at the expense of others.

The implementation steps and potential timelines in Figure 1 below demonstrate the time required to implement the subclass.

Figure 1: Implementation Steps and Potential Timelines



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 during 2021 on the adoption of a small business tax class for consideration for 2022 and future years.

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SIGNATURE

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