

2021 Education Property Tax Levy and Clawback Rate By-Law

Date: April 15, 2021
To: Executive Committee
From: Chief Financial Officer and Treasurer
Wards: All

SUMMARY

This report recommends adoption of the 2021 education tax rates and education property tax levy for school purposes, as required by legislation. The City of Toronto levies and collects education taxes on behalf of the Province of Ontario, based on the education tax rates set out in Ontario Regulation 400/98.

This report also recommends the 2021 percentage of the tax decreases (the ‘clawback’ rates) required to fund the capping limit on properties in the commercial, industrial and multi-residential property classes, as provided for by legislation.

RECOMMENDATIONS

The Chief Financial Officer and Treasurer recommends that:

1. City Council adopt the 2021 tax rates for school purposes, as shown in column III, which will generate an education tax levy on rateable properties for 2021 of \$2,136,950,788 in accordance with Ontario Regulation 400/98 as amended, prescribing such rates for the City of Toronto of which \$4,646,076 is to be retained by the City pursuant to Ontario Regulation 121/07:

Column I	Column II	Column III
Property Class	2021 Tax Rates for Education Levy before Graduated Tax Rates	2021 Tax Rates for Education Levy after Graduated Tax Rates
Residential	0.153000%	0.153000%
Multi-Residential	0.153000%	0.153000%
New Multi-Residential	0.153000%	0.153000%

Column I	Column II	Column III
Property Class	2021 Tax Rates for Education Levy before Graduated Tax Rates	2021 Tax Rates for Education Levy after Graduated Tax Rates
Commercial General	0.880000%	0.880000%
Commercial Residual Band 1	0.880000%	0.840110%
Commercial Residual Band 2	0.880000%	0.902476%
Commercial Shared Payment-in-Lieu	0.980000%	0.980000%
Commercial Shared Payment-in-Lieu Band 1	0.980000%	0.918104%
Commercial Shared Payment-in-Lieu Band 2	0.980000%	0.986259%
Industrial	0.880000%	0.880000%
Industrial Shared Payment-in -Lieu	1.0672200%	1.0672200%
Pipelines	0.880000%	0.880000%
Farmlands	0.038250%	0.038250%
Managed Forests	0.038250%	0.038250%

2. City Council adopt reductions in tax decreases for the 2021 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	60.440207%	39.559793%
Industrial	77.606089%	22.393911%
Multi-residential	55.713517%	44.286483%

3. 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 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.

City Council at its meeting of February 18, 2021, enacted By-law 78-2021 thereby adopting the 2021 municipal property tax rates and the municipal tax levy arising from such rates.

On February 3, 2021, the Minister of Finance filed O. Reg. 46/21 amending O. Reg. 400/98 under the Education Act prescribing 2021 tax rates for school purposes. One of the amendments enacted by the regulation is the requirement that the City of Toronto adopt graduated education tax rates, similar to other municipalities that have elected to adopt graduated municipal tax rates.

Accordingly, this report recommends adoption of the tax rates for school purposes, as prescribed, including graduated education tax rates for the commercial residual tax class. The graduated education rates are calculated by applying the municipal ratio of tax rates for Band 1 and Band 2, as adopted by City Council on February 18, 2021, and outlined in Table 1 below.

Table 1: Graduated Education Rates for Commercial Residual Tax Class

Property Class	Bands	Portion of Assessment	Ratio of Tax Rate to Each Other	2021 Graduated Education Rates
Residual Commercial	Lowest Band 1	Less than or equal to \$1,000,000	0.930895	0.840110%
Residual Commercial	Highest Band 2	Greater than \$1,000,000	1.000000	0.902476%

City Council must adopt the prescribed education tax rates in accordance with the regulation and enact a by-law levying them.

FINANCIAL IMPACT

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 2021 education levy on rateable assessment will be \$2,136,950,788 based on the recommended 2021 education rates. Pursuant to Ontario Regulation 121/07, the City will retain \$4,646,076 of the education levy.

The average household assessed at \$698,801 in 2021 will see no increase in their education tax bill of \$1,069, remaining the same as in 2020. A detailed breakdown of 2021 municipal and education property taxes on the average house is presented in Table 4 of this report.

For the 2021 taxation year the education tax rates were reduced to 0.88% for the commercial, industrial and pipeline property classes, resulting in education tax levy savings for those property classes, as shown in Table 2 and Table 3.

The implementation of graduated education tax rates in 2021 will result in additional savings for most properties in the commercial residual tax class. The highest benefit of about a 14% reduction in education taxes will be experienced by properties with Current Value Assessment (CVA) of up to \$1 million, as shown in Table 2.

Table 2: Graduated Education Taxes Impact

Type of Property	Assessment	2020 Education Taxes	2021 Education Taxes	2021 Impact	
		\$/y	\$/y	\$/y	%
Commercial General	3,000,000	\$29,400	\$26,400	-3,000	-10.2%
Commercial Residual	1,000,000	\$9,800	\$8,401	-1,399	-14.3%
Commercial Residual	3,000,000	\$29,400	\$26,451	-2,949	-10.0%

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.

DECISION HISTORY

At its meeting of February 2, 2021, City Council adopted Item EX20.5: Property Tax Policies for 2021 that included a policy to limit tax increases for the commercial, industrial and multi-residential property classes by capping taxes at 10 percent of the preceding year's annualized taxes.

At its meeting of February 18, 2021, City Council adopted Item EX21.1: 2021 Property Tax Rates and Related Matters that established the 2021 municipal property tax levy and tax rates. That report also authorized the Chief Financial Officer and Treasurer to report to Executive Committee, or directly to Council or a special meeting of Council if necessary, on the 2021 tax rates for school purposes, and the 2021 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 2021 'clawback' rates).

COMMENTS

2021 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.

In view of the unique and unforeseen challenges that all municipalities, residents, and businesses faced during 2020, the Provincial government postponed of the planned province-wide reassessment, and the assessment values for the 2021 taxation year continue to be the same as for the 2020 taxation year. As a result there was no CVA-related education tax increase in 2021.

In addition, the Province reduced business education tax rates to 0.88% in 2021, which will result in \$140.78 million in tax savings for the commercial, industrial and pipeline property classes in Toronto, as shown in Table 3.

To ensure municipalities are not negatively impacted by business education tax reductions, the education rates for payment-in-lieu properties where the education portion of taxes are retained by the municipality were maintained at 2020 rates.

Table 3 below provides a reconciliation of the 2021 education tax levy for Toronto by property class. The Province will receive \$4.642 million from additional education tax levies arising from assessment growth in the City, largely driven by condominium and multi-residential development.

The combined education tax levy change, including assessment growth levy in Toronto in 2021 vs 2020 will be a reduction of \$136.14 million, resulting from the lower business education rates.

Table 3: 2021 Education Taxes

Property Class	2020 Education Levy '000	2020 Levy Change from Assessment Growth '000	2020 Year End Education Levy '000	2021 Education Levy Change '000	2021 Prescribed Education Levy '000
Residential	848,999	14,596	863,595	-	863,595
Multi-Residential	78,618	(1,062)	77,556	10	77,567
New Multi-Residential	5,909	2,117	8,025	-	8,025

Property Class	2020 Education Levy '000	2020 Levy Change from Assessment Growth '000	2020 Year End Education Levy '000	2021 Education Levy Change '000	2021 Prescribed Education Levy '000
Commercial General	632,574	(5,605)	626,969	(63,257)	563,712
Commercial Residual	606,343	(2,867)	603,476	(60,259)	543,217
Industrial	95,963	(2,564)	93,399	(15,878)	77,520
Pipelines	4,677	27	4,704	(1,392)	3,312
Farmlands	2	(0)	2	-	2
Managed Forests	2	-	2	-	2
Total	2,273,086	4,642	2,277,727	(140,777)	2,136,951

Table 4 summarizes the tax impacts on the average house in Toronto with an assessed value of \$698,801. The average 2021 household impact arising from the municipal portion of taxes of \$79.03 (a 2.53% increase) was reported to City Council in February, 2021 during adoption of its budget. The 2021 education tax rates, prescribed by the Province and recommended in this report will have no increase in education taxes on the average home in Toronto. The total 2021 municipal and education levy impact for the average household in Toronto will be \$79.03 or a 1.89% increase on the total bill.

Table 4: 2021 Tax Impacts on Average House (CVA \$698,801)

	2020 Taxes	2021 Taxes	Increase, \$	Increase, %
City	\$3,122	\$3,201	\$79	2.53%
Education	\$1,069	\$1,069	-	0.00%
Total	\$4,191	\$4,270	\$79	1.89%

Business Vacancy Reduction Programs

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 2020, the education property tax vacancy reduction was fully eliminated. 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 2021 taxation year.

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. In 2017, in order to accelerate progress towards full CVA taxation, Council adopted an increase in the capping limit to 10% of the prior year's full CVA. In order to mitigate the impact of significant tax increases, in 2018 and each following year, including 2021, Council adopted a capping limit of 10% of a property's prior year annualized taxes, including properties that had reached full CVA taxation.

In order to ensure that progress is made towards increasing the number of properties at full CVA taxation and decreasing the number of clawback properties, Council adopted a policy in 2020 and 2021 that properties that are within \$500 (plus or minus) of their full CVA level of taxation are taxed at full CVA and excluded from the capping and clawback provisions.

As permitted by current legislation, the capping of tax increases is funded by "clawing back" tax decreases. Table 5 below sets out the percentage reductions in the tax decreases for 2021 (the “clawback rate”) necessary to fund the foregone revenue resulting from the recommended 10% cap on tax increases for 2021. The “allowable decrease” (Column III) represents the percentage of the tax decrease allowed for those properties that are experiencing tax reductions under CVA.

Table 5: 2021 Clawback Rates

Column I	Column II	Column III
(Property Class)	(Clawback Percentage)	(Allowable Decrease)
Commercial	60.440207%	39.559793%
Industrial	77.606089%	22.393911%
Multi-residential	55.713517%	44.286483%

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SIGNATURE

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