

## **2022 Education Property Tax Levy and Clawback Rate By-Law**

**Date:** April 20, 2022  
**To:** Executive Committee  
**From:** Chief Financial Officer and Treasurer  
**Wards:** All

### **SUMMARY**

---

This report recommends adoption of the 2022 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 continuing the policy of limiting (capping) allowable tax increases in 2022 to a maximum of 10% of a property's prior year's taxes, for any property in the commercial, industrial and multi-residential tax classes that would otherwise experience a property tax increase of greater than 10% and where the tax increase is greater than \$500.

The costs of capping protection will be funded by withholding (clawing-back) a portion of the tax decreases that would otherwise be experienced by other properties within each class, as has been the City's practice since 1998, and for 2022 for the first time since capping policies were adopted in 1998, by a one-time draw from the Tax Rate Stabilization Reserve to fund a shortfall in available clawback within the multi-residential tax class. This report recommends the percentage of the tax decreases that must be withheld (the 'clawback' rates) in order 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 2022 tax rates for school purposes, as shown in column II, which will generate an education tax levy on rateable properties for 2022 of \$2,128,186,311 in accordance with Ontario Regulation 400/98 as amended, prescribing such rates for the City of Toronto, of which \$4,783,977 is to be retained by the City pursuant to Ontario Regulation 121/07:

Column I	Column II
Property Class	2022 Tax Rates for Education Levy
Residential	0.153000%
Multi-Residential	0.153000%
New Multi-Residential	0.153000%
Commercial	0.880000%
Commercial Shared Payment-in-Lieu	0.980000%
Industrial	0.880000%
Industrial Shared Payment-in -Lieu	1.0672200%
Pipelines	0.880000%
Farmlands	0.038250%
Managed Forests	0.038250%

2. City Council adopt the following property tax capping polices for the 2022 taxation year:

a. limit tax increases for the commercial, industrial, and multi-residential property classes by capping taxes at 10% of the preceding year's annualized taxes, by opting to have subsection 292(1), paragraph 1, of the City of Toronto Act, 2006, apply for the 2022 taxation year;

b. continue to provide that the 10% cap on tax increases apply to any property within the commercial, industrial and multi-residential classes, regardless of whether the property had reached full Current Value Assessment taxation levels in a prior year, subject to the threshold adopted in Part c. below.

c. for the purposes of subsection 292(1), paragraphs 3 and 4 of the City of Toronto Act, 2006, adopt a threshold limit of \$500 to determine the taxes for municipal and school purposes, such that properties that are within \$500 (plus or minus) of their full Current Value Assessment level of taxation in the current year are taxed at full Current Value Assessment taxation levels for the year, and are therefore excluded from capping/claw-back provisions for that year.

3. City Council adopt reductions in tax decreases for the 2022 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	Column II	Column III
(Property Class)	(Clawback Percentage)	(Allowable Decrease)
Commercial	81.187053%	18.812947%
Industrial	70.963057%	29.036943%
Multi-residential	100.00%	0.00%

4. City Council authorize a one-time draw from the Tax Rate Stabilization Reserve in 2022 to maintain Council's previously approved 2022 municipal tax levy and the education levy set out in Recommendation 1, in an amount sufficient to fully offset any shortfall in the clawback amount for the Multi-Residential property tax class for the 2022 taxation year, in order to maintain consistency with Council's tax capping policies from prior years, in an amount not to exceed \$47,000.

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

## **FINANCIAL IMPACT**

---

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 2022 education levy on rateable assessment will be \$2,128,186,311 based on the recommended 2022 education rates. Pursuant to Ontario Regulation 121/07, the City will retain \$4,783,977 of the education levy.

The education property tax rates prescribed by the Province for 2022 remain unchanged from the previous year for all classes, including the education rates for certain properties where municipalities are permitted to retain the education portion of payment in lieu of taxes (PILs).

Accordingly, the average household assessed at \$697,185 in 2022 will see no increase in their education tax bill of \$1,067, remaining the same as in 2021. A detailed breakdown of 2022 municipal and education property taxes on the average house is presented in Table 4 of this report.

The 15% education tax rate reduction for the new small business tax subclass will result in \$24.165 million of savings in education taxes for the subclass in 2022. Table 1 shows the savings for a small business subclass property for a variety of CVA values.

It should be noted that in 2021 graduated tax rates (Band 1 and Band 2) applied to properties in the commercial residual tax class. In 2022 graduated rates are discontinued, and a single education tax rate will apply across the commercial tax class. The transition to a uniform commercial education rate of 0.88% in 2022 results in a small reduction of \$55,000 in the commercial education tax levy as a result of the phasing out of graduated tax rates.

Table 1 shows the impact for properties that were classified in the commercial residual tax class in 2021 and the resulting changes in taxes from the introduction of the small business tax subclass and the elimination of graduated rates in 2022. There will be no change in education taxes in 2022 for any other class, aside from the commercial residual.

**Table 1: 2022 Education tax impacts for properties classified within the commercial residual class in 2021**

Property Tax Classification in 2022	Current Value Assessment (CVA)	2021 Education Taxes (with graduated rates) (\$/year)	2022 Education Taxes (\$/year)	2022 Impact	
				(\$/year)	%
Small business subclass	1,000,000	8,401	7,480	-921	-11%
Small business subclass	5,000,000	44,500	37,400	-7,100	-16%
Small business subclass	7,000,000	62,550	52,360	-10,190	-16%
Commercial class	2,000,000	17,426	17,600	+174	1%
Commercial class	7,000,000	62,550	61,600	-950	-2%

This report also recommends clawback rates for the Commercial and Industrial tax classes. The foregone revenue resulting from the legislated limit on Current Value Assessment (CVA) related tax increases on the commercial and industrial 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.

For the multi-residential tax class only, and for the first time since capping policy was introduced in 1998, there are not enough tax decreases within the class (available clawback amount) to fund the caps on tax increases in 2022, even with a 100 per cent clawback of available decreases. This report recommends that, in order to maintain Council's previously approved 2022 municipal tax levy and the education levy set out in Recommendation 1, that any shortfall in the clawback amount necessary to maintain consistency with Council's tax capping policies from prior years for the multi-residential property tax class for the 2022 taxation year, be funded by a one-time draw from the Tax Rate Stabilization Reserve, in an amount not to exceed \$47,000. This shortfall in available clawback was unforeseen at the time the municipal tax rates were approved, as typically claw-back rates are determined as close as possible to the issuance of final property tax bills.

Even with this draw from the reserve, the clawback rate for multi-residential properties that would have otherwise been eligible to receive decreases will be 100%, meaning no assessment-related decreases will be flowed through to multi-residential owners in 2022. It is expected that this is a one-time shortfall in clawback amounts, and results from the fact that no tax increases have been allowed within the multi-residential tax class since 2017, and there are very few properties left that require capping, as most multi-residential properties have reached full CVA levels.

## **DECISION HISTORY**

---

At its meeting of February 17, 2022, City Council adopted Item EX30.1: 2022 Property Tax Rates and Related Matters that established the 2022 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 2022 tax rates for school purposes, and the 2022 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 2022 'clawback' rates).

Item EX30.1: <http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2022.EX30.1>

## COMMENTS

---

### 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 clawback 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 17, 2022, enacted By-law 126-2022 thereby adopting the 2022 municipal property tax rates and the municipal tax levy arising from such rates.

On January 18, 2022, the Minister of Finance filed O. Reg. 11/22 amending O. Reg. 400/98 under the Education Act prescribing 2022 tax rates for school purposes. One of the amendments enacted by the regulation is that the tax rate for school purposes for the small business subclasses be reduced by 15 per cent, matching the municipal tax rate reduction for the subclass.

The applicable subclass tax rate reductions on the education rates in 2022 for the City of Toronto are shown in Table 2 below.

**Table 2: Applicable Education Tax Rate Reductions**

Property Class	Tax Subclass	Applicable Tax Rate Reduction
Commercial	Creative Facilities Enterprise subclass (Creative Co-location Facilities Subclass)	50% of Commercial rate
	Small Business subclass	15% of Commercial rate
	Excess Land	0% of Commercial rate
	Vacant Land	0% of Commercial rate
	Farmland Awaiting Development (First subclass)	60% of Residential/Farm rate
Industrial	Excess Land	0% of Industrial rate

Property Class	Tax Subclass	Applicable Tax Rate Reduction
	Vacant Land	0% of Industrial rate
	Farmland Awaiting Development (First subclass)	60% of Residential/Farm rate
Multi-residential	Farmland Awaiting Development (First subclass)	60% of Residential/Farm rate

City Council must adopt the prescribed education tax rates in accordance with the regulation and enact a by-law levying them. Accordingly, this report recommends adoption of the tax rates for school purposes, as prescribed.

**2022 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 and 2021, the Provincial government postponed the planned province-wide reassessment, and the assessment values for the 2022 taxation year continue to be the same as for the 2020 and 2021 taxation year. As a result there was no CVA-related education tax increase in 2022.

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 2021 rates.

For the 2022 taxation year City Council adopted a small business tax subclass within the commercial class with a tax rate reduction of 15%. The Province matched the reduction on the education tax rates in 2022, which will result in \$24.165 million in education tax savings for the properties in the small business subclass in Toronto, as shown in Table 3.

The discontinuation of graduated tax rates for the commercial residual tax class and the application of a uniform commercial education rate of 0.88% results in small reduction of \$55,000 in the commercial education tax levy. The total impact of the small business tax subclass and discontinued graduated rates is \$24.110 million, as shown in Table 3.

Table 3 below provides a reconciliation of the 2022 education tax levy for Toronto by property class. The Province will receive an additional \$15.345 million in education tax levies in 2022 arising from new development and assessment growth in the City, largely driven by condominium and multi-residential development.

The combined education tax levy change in 2022 vs 2021, including assessment growth levy and the impacts of the small business tax rate reduction, will be a reduction of

\$8,765 million (the difference between the 2021 total education levy and the 2022 levy total).

**Table 1: 2022 Education Taxes**

Property Class	2021 Education Levy '000	2021 Levy Change from Assessment Growth '000	2021 Year End Education Levy '000	2022 Education Levy Change '000	2022 Prescribed Education Levy '000
Residential	863,595	14,603	878,198	0	878,198
Multi-Residential	77,567	276	77,842	0	77,842
New Multi-Residential	8,025	1,282	9,307	0	9,307
Commercial	1,106,929	1,088	1,108,016	(24,110) *	1,083,906
Industrial	77,520	(1,921)	75,599	0	75,599
Pipelines	3,312	18	3,330	0	3,330
Farmlands	2	0	2	0	2
Managed Forests	2	0	2	0	2
<b>Total</b>	<b>2,136,951</b>	<b>15,346</b>	<b>2,152,297</b>	<b>(24,110)*</b>	<b>2,128,186</b>

\* Impact of 15% rate reduction for small business tax subclass and elimination of graduated tax rates

Table 4 summarizes the tax impacts on the average house in Toronto with an assessed value of \$697,185. The average 2022 household impact arising from the municipal portion of taxes of \$141 (a 4.4% increase) was reported to City Council in February, 2022 during adoption of the budget. The 2022 education tax rates, prescribed by the Province and recommended in this report, will see no increase in education taxes on the average home in Toronto. The total 2022 combined municipal and education levy impact for the average household in Toronto will be \$141, or a 3.2% increase on the total property tax bill.

**Table 2 Tax Impacts on Average House (CVA \$697,185)**

	2021 Taxes	2022 Taxes	Increase, \$	Increase, %
<b>City</b>	\$3,198	\$3,339	\$141	4.40%
<b>Education</b>	\$1,067	\$1,067	-	0.00%
<b>Total</b>	\$4,265	\$4,406	\$141	3.20%

**Capping Policy and 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 saw properties that are within \$500 (plus or minus) of their full CVA level of taxation taxed at full CVA and excluded from the capping and clawback provisions.

This report recommends for the 2022 taxation year to continue the policy of limiting (capping) allowable tax increases to a maximum of 10% of a property’s prior year’s annualized taxes, for any property in the commercial, industrial and multi-residential tax classes that would otherwise experience a property tax increase of greater than 10% and where the tax increase is greater than \$500. This policy will provide protection from significant tax increases to all business properties, while also allowing for faster transition to full CVA and a reduction in the number of clawed back properties by applying the \$500 threshold.

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 2022 (the “clawback rate”) necessary to fund the foregone revenue resulting from the recommended 10% cap on tax increases for 2022. 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: 2022 Clawback Rates**

<b>Column I</b>	<b>Column II</b>	<b>Column III</b>
<b>(Property Class)</b>	<b>(Clawback Percentage)</b>	<b>(Allowable Decrease)</b>
Commercial	81.187053%	18.812947%
Industrial	70.963057%	29.036943%
Multi-residential	100.00%	0.00%



For the multi-residential tax class only, there are not enough tax decreases within the class (available clawback amount) to fund the caps on tax increases in 2022, even with a 100 per cent clawback of available decreases. This report recommends that any shortfall in the clawback amount necessary to maintain consistency with Council's tax capping policies from prior years for the Multi-Residential property tax class for 2022 be funded by a one-time draw from the Tax Rate Stabilization Reserve, in an amount not to exceed \$47,000.

It is expected that this is a one-time shortfall in the available clawback amount, and results from the fact that no tax increases have been allowed within the multi-residential tax class since 2017, and there are very few properties left that require capping, as most multi-residential properties have reached full CVA levels. While currently anticipated to be one-time in nature, staff will undertake further analysis and modelling early in 2023 to predict potential future year impacts for all property classes in the event that shortfalls may be anticipated in future years. Predictive modelling will be used to inform future decision-making on tax policy, to ensure that capping and clawback provisions remain fiscally sustainable without ongoing reliance on the reserve, while maintaining a measure of protection, predictability and fairness for business property owners.

## **CONTACT**

---

Boriana Varleva, Senior Financial Analyst, Corporate Financial Strategies and Policy, [Boriana.Varleva@toronto.ca](mailto:Boriana.Varleva@toronto.ca); 416-392-4949

Casey Brendon, Director, Revenue Services, [Casey.Brendon@toronto.ca](mailto:Casey.Brendon@toronto.ca); 416-392-8065

## **SIGNATURE**

---

Heather Taylor  
Chief Financial Officer and Treasurer