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## 2023 OPERATING BUDGET BRIEFING NOTE

### Revenue Options

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#### Issue/Background:

During the 2023 Budget deliberations, the Budget Committee requested the Chief Financial Officer and Treasurer to provide a briefing note on:

- a. Available estimates on potential net revenue for an Alcoholic Beverage Tax, as currently permitted by the City of Toronto Act;
- b. Available estimates on potential net revenue for an Entertainment and Amusement Tax, as currently permitted by the City of Toronto Act;
- c. Available estimates on potential net revenue for a Tobacco Tax, as currently permitted by the City of Toronto Act;
- d. Available estimates on potential net revenue for a Motor Vehicle Ownership Registration Tax, as currently permitted by the City of Toronto Act;
- e. Available estimates on potential net revenue for Road Pricing (Cordon Pricing), as currently permitted by the City of Toronto Act;
- f. The estimated time to implement each of the above revenue options;
- g. Identification on what information from previous reports would need to be updated for a complete feasibility study on the above revenue options; and
- h. A list of any revenue options not listed that would be allowed by the City of Toronto Act without Provincial approval.

The information on revenue options provided herein is based on information and projections that were last updated in 2021. A more up to date analysis of potential revenue options may consider COVID-19-related changes in behaviours, economic conditions and market influences, which may have various impacts on the revenue projections below.

#### Key Points:

##### Alcoholic Beverage Tax

- An alcoholic beverage tax at a 1% to 10% rate, is estimated to generate an annual net revenue potential of \$21 to \$151 million.

- A sales tax on the use or consumption of liquor is permitted under COTA.
- Provincial regulation is required to implement.
- The estimated time to implement is 12 months.
- Implementing and administering this type of sales tax would require thousands of retailers and licensees to submit remittance forms to the City. The City would need to ensure dedicated staff are hired and trained prior to the implementation of the tax.
- A City-administered system would also require IT and other services (e.g., compliance, audit) to support its collection and enforcement efforts.
- Given the many thousands of locations that sell alcohol within the City of Toronto, this would be a substantial undertaking requiring further study and stakeholder consultation.

### **Entertainment and Amusement Tax**

- An entertainment and amusement tax at a 1% to 10% rate, is estimated to generate an annual net revenue potential of \$4 to \$35 million.
  - A sale tax on the purchase of admission to a place of amusement is permitted under COTA.
  - Provincial regulation is required to implement.
  - The estimated time to implement is 12 months.
- An amusement tax is a tax on discretionary spending; revenue is thus more likely to fluctuate with local economic conditions.
- Implementing and administering an entertainment and amusement tax would require the City to ensure dedicated staff are hired and trained prior to the implementation of the tax.
- A City-administered system would also require IT and other services (e.g., compliance, audit) to support its collection and enforcement efforts.
- Compared to an alcohol tax regime, there are significantly fewer movie theatres, sports stadiums, and live entertainment venues in the city. Hence, the scope of administration and implementation is much narrower.

### **Tobacco Tax**

- A tobacco tax at a 1% to 10% rate, is estimated to generate an annual net revenue potential of \$5 to \$6 million.
  - A sales tax on the purchase of tobacco for use or consumption is permitted under COTA.

- Provincial regulations is required to implement.
- The estimated time to implement is 12 months.
- With nearly four thousand retail points of sale in Toronto, effectively communicating and enforcing the tobacco tax could be a substantial undertaking for the City to administer. The City would need to ensure dedicated staff are hired and trained prior to the implementation of the tax.
- A City-administered system would also require IT and other services (e.g., compliance, audit) to support its collection and enforcement efforts.
- As a consumption tax, a tobacco tax would be applied at the final point of sale on the price of tobacco products before HST. Implementing this type of sales tax would require significant policy design and implementation planning, corresponding IT infrastructure, and administrative and enforcement personnel.
- Administration and enforcement would be complex and require additional investment.

#### **Motor Vehicle Registration Tax**

- A motor vehicle registration tax at \$20 to \$100 per vehicle, is estimated to generate an annual net revenue potential of \$18 to \$94 million.
  - This tax is permitted under COTA.
  - Provincial cooperation is required to implement.
  - The estimated time to implement is 12 months.
- This tax was previously enacted by the City in September 2008 and was repealed in early 2011. To minimize implementation and administrative costs, the City piggy-backed off the Province's existing infrastructure for registering vehicles and collecting fees for vehicle ownership and operation.
- The City could implement a similar structure, however the Province would have to be in agreement, which would be challenging given the Province's recent elimination of license plate renewal fees.

#### **Road Pricing (Cordon Pricing)**

- Road Pricing at \$5 to \$20 per day, is estimated to generate an annual net revenue potential of \$89 to \$377 million.
  - This is permitted under COTA.
  - Provincial regulation is required to implement.
  - he estimated time to implement is 24 months.

- The City would be required to construct or affix the necessary infrastructure and technology, including overhead gantries, communication devices, and overhead cameras. It may be necessary for the City to acquire land for the installation of gantries, which may require the City to expropriate land.
- A cordon charge is challenging to implement and would require substantial testing, consultation, review and analysis. It is also costly to implement due to significant start-up costs (e.g., construction of gantries and systems) and the ongoing administration costs can be high (approximately 35% of total revenues).

### **Summary of Revenue Options**

Table 1 below provides a summary of potential new revenue options, total potential revenues, and whether these options are currently permitted under the City of Toronto Act, and whether provincial regulation would be required to implement.

**Table 1: Summary of Revenue Options**

Revenue Option	Annual Net Revenue Potential (\$ millions)	Permitted Under CoTA	Provincial Regulation req'd?	Estimated Time to Implement
<b>Additional Revenue Options</b>				
Alcoholic Beverage Tax (1 – 10% rate)	\$21 – \$151	Y	Y	12 months
Entertainment and Amusement Tax (1 - 10% rate)	\$4 – \$35	Y	Y	12 months
Tobacco Tax (1 – 10% rate)	\$5 - \$6	Y	Y	12 months
Road Pricing (Cordon Pricing) (\$5 to \$20 per day)	\$89 – \$377	Y	Y	24 months
Motor Vehicle Registration Tax (\$20 to \$100)	\$18 – \$94	Y	N*	12 months

\*Provincial cooperation required to implement.

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