

## 2023 Education Property Tax Levy and Clawback Rate By-Law

**Date:** April 18, 2023  
**To:** Executive Committee  
**From:** Chief Financial Officer and Treasurer  
**Wards:** All

### SUMMARY

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This report recommends adoption of the 2023 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.

In February 2023, City Council adopted the recommendation 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 report also recommends the 2023 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. It has been long standing City Council policy to adopt clawback rates sufficient to fund forgone revenues arising from its adopted tax increase capping policy, and as provided for by legislation.

### RECOMMENDATIONS

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The Chief Financial Officer and Treasurer recommends that:

1. City Council adopt the 2023 tax rates for school purposes, as shown in column II, which will generate an education tax levy on rateable properties for 2023 in the total amount of \$2,140,137,916 in accordance with Ontario Regulation 400/98 as amended, prescribing such rates for the City of Toronto, of which \$4,804,288 (0.2% of the total education levy) is to be retained by the City pursuant to Ontario Regulation 121/07:

Column I	Column II
Property Class	2023 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	1.067220%
Pipelines	0.880000%
Farmlands	0.038250%
Managed Forests	0.038250%

2. City Council adopt reductions in tax decreases for the 2023 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	70.003192%	29.996808%
Industrial	41.654010%	58.345990%
Multi-residential	79.448408%	20.551592%

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

## **FINANCIAL IMPACT**

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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. For 2023 the municipal tax levy is \$5,141,680,582, not including the City Building Fund, and the education tax levy is \$2,140,137,916 totaling to a combined property tax levy of \$7,281,818,499.

For certain Payment in lieu of Taxes (PILT) properties, the portion of the PILT that would be attributable to education taxes is retained by the City, by prior agreement, and current legislation/regulation. Of the total education levy of \$2,140,137,916 mentioned above, the City retains only \$4,804,288 or 0.2% as the education portion of payment in

lieu of taxes (PILTS) as permitted by Ontario Regulation 121/07, and remits the remaining balance of \$2,135,333,628 to the province.

The education property tax rates prescribed by the Province for 2023 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 \$695,268 in 2023 will see no increase in their education tax bill of \$1,064, remaining the same as in 2022. A detailed breakdown of 2023 municipal and education property taxes on the average home is presented in Table 4 of this report.

The 15% education tax rate reduction for the small business tax subclass will result in \$23.975 million of reduction in education taxes for the subclass in 2023.

Table 1 shows the dollar value of the 15% reductions for the small business tax subclass in 2023 for variety of CVAs.

**Table 1: 2023 Education tax reductions for properties classified within the small business tax subclass**

Property CVA	Commercial class Education Levy 2023	Small Business subclass Education Levy, 2023	15 % Small business Reductions, \$
1,000,000	\$ 8,800	\$ 7,480	\$ 1,320
5,000,000	\$ 44,000	\$ 37,400	\$ 6,600
7,000,000	\$ 61,600	\$ 52,360	\$ 9,240

This report also recommends clawback rates for the commercial, industrial and multi-residential property tax classes. There is 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**

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At its meeting of February 15, 2023, City Council adopted Item CC4.1: Property Taxes, User Fees and Related Matters that established the 2023 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 2023 tax rates for school purposes, and the 2023 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 2023 ‘clawback’ rates).

**COMMENTS**

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**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 15, 2023, enacted By-law 173-2023 thereby adopting the 2023 municipal property tax rates and the municipal tax levy arising from such rates.

On December 19, 2022, the Minister of Finance filed O. Reg. 576/22 amending O. Reg. 400/98 under the Education Act prescribing 2023 tax rates for school purposes. The regulation provides 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 2023 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

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

**2023 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, prescribe the education tax rates for all municipalities.

In view of the unique and unforeseen challenges that all municipalities, residents, and businesses faced during 2020, 2021, and 2022 the Provincial government postponed the planned province-wide reassessment, and the assessment values for the 2023 taxation year continue to be the same as for the last three taxation years. As a result there was no CVA-related education tax increase in 2023.

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 2022 rates.

For the 2023 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 2023, which will result in \$23.975 million in education tax reductions for the properties in the small business subclass in Toronto.

Table 3 below provides a reconciliation of the 2023 education tax levy for Toronto by property class. The Province will receive an additional \$11.952 million in education tax levies in 2023 arising from new development and assessment growth in the City, largely driven by condominium and multi-residential development.

**Table 3: 2023 Education Taxes**

Property Class	2022 Education Levy '000	2022 Levy Change from Assessment Growth '000	2022 Year End Education Levy '000	2023 Prescribed Education Levy '000
Residential	878,198	12,083	890,281	890,281
Multi-Residential	77,842	-335	77,507	77,507
New Multi-Residential	9,307	1,443	10,750	10,750
Commercial	1,083,906	970	1,084,876	1,084,876
Industrial	75,599	-2,218	73,381	73,381
Pipelines	3,330	10	3,340	3,340
Farmlands	2	0	2	2
Managed Forests	2	0	2	2
<b>Total</b>	<b>2,128,186</b>	<b>11,952</b>	<b>2,140,138</b>	<b>2,140,138</b>

Table 4 summarizes the tax impacts on the average home in Toronto with an assessed value of \$695,268. The average 2023 household impact arising from the municipal portion of taxes of \$239 (a 7.16% increase) was reported to City Council in February, 2023 during adoption of the budget. The 2023 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 2023 combined municipal and education levy impact for the average household in Toronto will be \$239, or a 5.43% increase on the total property tax bill.

**Table 4: 2023 Tax Impacts on Average House (CVA \$695,268)**

	<b>2022 Taxes</b>	<b>2023 Taxes</b>	<b>Increase, \$</b>	<b>Increase, %</b>
<b>City</b>	\$3,330	\$3,569	\$239	7.16%
<b>Education</b>	\$1,064	\$1,064		0.00%
<b>Total</b>	<b>\$4,394</b>	<b>\$4,632</b>	<b>\$239</b>	<b>5.43%</b>

**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 2022, City 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 has adopted a policy in 2020 and each following year, 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.

In February 2023, City Council adopted item [CC4.1](#), including the recommendation 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 for the 2023 taxation year. 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 2023 (the “clawback rate”) necessary to fund the foregone revenue resulting from the recommended 10% cap on tax increases for 2023. 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: 2023 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	70.003192%	29.996808%
Industrial	41.654010%	58.345990%
Multi-residential	79.448408%	20.551592%

## **CONTACT**

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Boriana Varleva, Senior Financial Analyst, Revenue Services  
[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**

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Heather Taylor  
Chief Financial Officer and Treasurer