

Small Business Property Tax Subclass Review

Date: September 19, 2023

To: Executive Committee

From: Interim Chief Financial Officer and Treasurer

Wards: All

SUMMARY

At its meeting of November 9, 10 & 12, 2021 meeting, Toronto Council adopted, with amendments, [Item EX27.7: Implementing a Small Business Property Tax Subclass](#). Council also approved the criteria and processes to identify eligible properties, as well as processes to address requests for reconsideration, appeals and other provisions related to the implementation and administration of the subclass.

In its consideration of this item, Council also directed the Chief Financial Officer and Treasurer, in consultation with the City Solicitor, to report back in 2023 on:

- the quantity, size and valuation of subclass-eligible versus overall commercial properties and a statement of inter-ward balancing of tax relief for the subclass;
- the implications of including all Business Improvement Areas to the geographic areas covered under the subclass;
- developing additional criteria and/or an application-based system that would allow for strip malls, which have small businesses as tenants, to be eligible for inclusion in the subclass; and
- developing an application-based system that would allow for additional small commercial properties which fall outside of the current eligibility criteria of the subclass to be included within the subclass.

In addition, at its June 8, 2022 meeting, in its consideration of Item [EX33.5: Status of Small Business Property Tax Subclass Implementation](#), the Executive Committee directed the Chief Financial Officer and Treasurer, in consultation with the Chief Communications Officer, Strategic Public and Employee Communications and the General Manager, Economic Development and Culture, to develop a public awareness campaign on the tax reduction benefits of the small business property tax subclass specifically focusing on tenants in gross leases.

In response to these directions and after conducting a program review, staff have examined mechanisms to better define the eligibility requirements of the subclass.

These eligibility changes are to take effect in the 2024 taxation year. This information is outlined within this report.

RECOMMENDATIONS

The Interim Chief Financial Officer and Treasurer recommends that:

1. City Council amend the definition of Eligible Property to exclude land that is classified within the commercial property tax class but that does not contain an affixed building or structure.
2. City Council amend the criteria for inclusion in the Small Business Property Tax Subclass to require that an eligible property must have a minimum current value assessment of \$10,000, in addition to a maximum prescribed current value assessment of either \$1,000,000 or \$7,000,000, depending on the property's geographic location.

FINANCIAL IMPACT

There are no new financial implications arising from this report. Financial implications are consistent with information that was reported in [Item EX27.7: Implementing a Small Business Property Tax Subclass](#)

The Interim Chief Financial Officer and Treasurer has reviewed this report and agrees with the financial impact information.

DECISION HISTORY

At its June 8, 2022 meeting, in its consideration of Item [EX33.5: Status of Small Business Property Tax Subclass Implementation](#), the Executive Committee directed the Chief Financial Officer and Treasurer, in consultation with the Chief Communications Officer, Strategic Public and Employee Communications and the General Manager, Economic Development and Culture, to develop a public awareness campaign on the tax reduction benefits of the small business property tax subclass specifically focusing on tenants in a gross lease.

At its November 9, 10 & 12, 2021 meeting, in its consideration of [Item EX27.7: Implementing a Small Business Property Tax Subclass](#), Council directed staff to report back on the quantity, size and valuation of subclass-eligible versus overall commercial properties and a statement of inter-ward balancing of tax relief for the subclass, adding Business Improvement Areas to the geographic areas covered under the subclass, developing additional criteria and/or an application-based system that would allow for strip malls, which have small businesses as tenants, to be included within the subclass and developing an application-based system that would allow for additional small commercial properties, which fall outside of the current eligibility criteria of the subclass, to be included within the subclass.

COMMENTS

In response to Council's direction, staff conducted a program review and have examined mechanisms to better define the eligibility requirements of the subclass. As a part of this review, it was determined that recommendations should be made to tighten the definition of an eligible property and to determine a minimum current value assessment threshold for those properties that qualify for the small business property tax subclass.

The current definition of land that is eligible to be included in the small business property tax subclass includes land that is assessed within the commercial class but which has no affixed structure or building. Examples of these types of properties include outside storage and vacant land that is being used for other purposes. To ensure that only land that has an affixed building or structure is eligible to be classified within the small business tax subclass, staff are recommending a technical amendment to the definition of eligible property to take effect in the 2024 taxation year.

Currently, commercial properties with a current value assessment under \$10,000 are included in the subclass and this includes properties with a non-business assessment such as signs, billboards, and amenity spaces. Staff are recommending an amendment to the legislation for the 2024 taxation year to introduce a minimum threshold of a current value assessment in the amount of \$10,000 in order to be eligible.

Revenue Services staff have worked closely with the Chief Communications Officer, Strategic Public and Employee Communications and the General Manager, Economic Development and Culture to develop a public awareness campaign to ensure both property owners and business operators/tenants are aware of the subclass, including how it works and who should benefit from it

There are no provisions in the *City of Toronto Act, 2006* that would allow the City to intervene in lease matters between property owners and their tenants. As a result, the City cannot ensure that the benefit of the tax rate reduction for small businesses is passed through to the business tenants. However, as part of the public awareness campaign, staff have provided a statement to all tenants of eligible small business properties advising they should speak to their landlord about receiving this reduction. This statement can be found on the City's website, the Business TO Newsletters, Facebook and X (formerly known as Twitter).

Small Business Property Tax Subclass Comparison

For the 2023 taxation year, there were a total number of 43,676 taxable commercial properties with an aggregate total assessed value of \$126.4 billion. Of that total, 29,027 properties (or portions of properties) met the eligibility requirements to be included in the subclass, representing a total assessed value of \$18.16 billion. The small business property tax subclass represents 66.5% of the total number of all commercial properties, or 14.4% of the total assessed value, as summarized in Table 1 below.

Table 1: Small Business Property Tax Subclass Comparison to all Commercial Properties

	Total Number of Properties	Current Value Assessment (\$)
Total Number of Properties in the Commercial Property Class	43,676	126,387,922,063
Total Number of Properties in the Small Business Property Tax Subclass	29,027	18,163,105,336
Percentage of Small Business Property Tax Subclass to the Commercial Property Class	66.5%	14.4%

Attachment 1 of this report provides a breakdown of the number of properties in the small business property tax subclass and the total assessed value in the subclass by ward, along with a percentage comparison of the number of properties and the assessed value as compared to the total in the subclass. In addition, the attachment provides the property tax relief by ward.

It should be noted there is a difference in the percentage of the number of properties and the assessed value for many of the wards as the assessed value of the comparable small business properties varies substantially across the city, depending on their location. It should also be noted that the tax rate reduction distribution by ward is the same as the assessed value.

Business Improvement Areas (BIA)

Council had requested that the Chief Financial Officer and Treasurer report back on the feasibility of adding all Business Improvement Areas to the geographic areas covered under the subclass. Analysis conducted by staff found that in 2023, there were a total of 17,569 commercial properties located within designated BIAs. Of that total, 14,824 properties met the eligibility requirements of the subclass. This means that 84% of the total number of the commercial properties located within BIAs are classified in the small business property tax subclass, with only 16% or 2,745 BIA properties that are not included in the subclass. Additionally, of the roughly 29,000 properties that comprise the entire small business tax subclass, at least 51% of these properties are located within the boundaries of a BIA.

Commercial properties that belong to BIAs but which are not included in the small business subclass are excluded either because the properties exceed the maximum lot size to qualify as a small business, or the CVA of the property exceeds the maximum allowable CVA for the geographic area in which the property is located. Given that the small business property tax subclass eligibility criteria are tailored towards small business properties and are applied consistently on a city-wide basis, and given that a very large proportion of BIA businesses are currently captured within the existing criteria for the small business subclass, no further changes to the criteria are recommended.

The Toronto Association of Business Improvement Areas (TABIA) was consulted in the preparation of this report. Details of the number of properties in each BIA can be found in Attachment 2 of this report.

Developing Eligibility Criteria for Strip Malls

The Chief Financial Officer and Treasurer was also asked to report back on the feasibility of developing additional eligibility criteria for small businesses located in strip malls. A review identified 834 strip plazas within the City and of those, 300 properties are in the eligible geographic area and have an assessed value of under \$7 million. Of these properties, only 23 meet the site area criteria. The option to increase the maximum site area requirement to allow some proportion of currently excluded strip mall properties to be included in the small business subclass could result in many other property types potentially qualifying for the small business subclass, and financial impacts of between \$3.4 million to \$18 million. Similarly, increasing the maximum current value assessment threshold to capture additional strip mall properties would cause a financial impact to the city of \$15.2 million to \$45.7 million. As the tax rate reduction for the small business subclass is fully funded by the remainder of the commercial tax class, these increased costs would have a direct impact on larger commercial properties.

In addition, since the owners of strip malls enter into leases with the individual small business tenants within the mall, and as the City is not party to lease matters between property owners and their tenants, it is not guaranteed that tenants of strip malls would receive the benefit of the reduced tax rate for small businesses.

No changes are proposed to the current eligibility criteria that would allow owners or tenants of strip malls to qualify for the small business tax rate. Staff will continue to investigate alternatives, in consultation with Economic Development and Culture, that could see some form of tax relief or a reduced tax rate apply to strip mall properties, possible for introduction in 2025 or beyond.

Application-Based System

Staff also explored the option of allowing property owners and small business owners that do not meet the current eligibility criteria to apply for the small business property tax subclass. At present, the current small business subclass criteria provides a benefit to more than 66% of commercial properties, and the criteria are applied consistently across the City, so as not to introduce inequities in treatment, or subjectivity in applying the eligibility criteria, which could be used to establish precedents. The option to file a Request for Reconsideration, and/or an appeal, remains available for those who feel their property should be eligible for the subclass.

Overall, the Small Business Property Tax Subclass has been very well received by property owners as well as small business owners. To date, there have been a total of 57 Request for Reconsiderations filed, of which 35 were filed in 2022 and 22 were filed in 2023. Of that total, six were successful in 2022 and 14 were successful in 2023 and

are now in the subclass and only four went on to file an appeal with two appeals for 2022 and two appeals for 2023.

CONTACT

Casey Brendon, Director, Revenue Services Division, 416-392-8065
Casey.Brendon@toronto.ca

SIGNATURE

Stephen Conforti
Interim Chief Financial Officer and Treasurer

ATTACHMENTS

Attachment 1: Breakdown of the Small Business Property Tax Subclass by Ward
Attachment 2: Summary of Properties in the Business Improvement Areas

Attachment 1.
Breakdown of the Small Business Property Tax Subclass by Ward

Political Ward	Number of Properties by Ward	Assessed Value \$	% of Ward Properties to Total # of Subclass Properties	% of Ward CVA to Total Subclass CVA	15% Tax Rate Reduction
1 - Etobicoke North	1,057	391,215,360	3.6%	2.2%	\$1,273,299
2 - Etobicoke Centre	92	41,566,916	0.3%	0.2%	\$135,289
3 - Etobicoke-Lakeshore	1,615	889,632,816	5.6%	4.9%	\$2,895,511
4 - Parkdale-High Park	1,315	1,061,811,523	4.5%	5.8%	\$3,455,905
5 - York South-Weston	903	416,056,706	3.1%	2.3%	\$1,354,150
6 - York Centre	1,372	473,943,602	4.7%	2.6%	\$1,542,556
7 - Humber River-Black Creek	749	258,549,413	2.6%	1.4%	\$841,507
8 - Eglinton-Lawrence	1,341	1,035,872,152	4.6%	5.7%	\$3,371,480
9 - Davenport	1,770	1,090,382,706	6.1%	6.0%	\$3,548,896
10 - Spadina-Fort York	2,190	2,025,230,158	7.5%	11.2%	\$6,591,568
11 - University-Rosedale	2,693	2,820,748,038	9.3%	15.5%	\$9,180,761
12 - Toronto-St. Paul's	956	825,180,800	3.3%	4.5%	\$2,685,737
13 - Toronto Centre	2,963	1,914,639,089	10.2%	10.5%	\$6,231,625
14 - Toronto-Danforth	1,671	1,175,645,154	5.8%	6.5%	\$3,826,402
15 - Don Valley West	531	612,244,970	1.8%	3.4%	\$1,992,689
16 - Don Valley East	521	140,249,758	1.8%	0.8%	\$456,474
17 - Don Valley North	260	\$96,842,668	0.9%	0.5%	\$315,196
18 - Willowdale	951	816,664,101	3.3%	4.5%	\$2,658,017
19 - Beaches-East York	1,172	750,751,055	4.0%	4.1%	\$2,443,489
20 - Scarborough Southwest	730	321,886,125	2.5%	1.8%	\$1,047,651
21 - Scarborough Centre	328	149,555,756	1.1%	0.8%	\$486,763
22 - Scarborough-Agincourt	1,621	347,660,084	5.6%	1.9%	\$1,131,538
23 - Scarborough North	1,821	369,483,021	6.3%	2.0%	\$1,202,566

24 - Scarborough-Guildwood	230	69,735,134	0.8%	0.4%	\$226,969
25 - Scarborough-Rouge Park	175	67,558,231	0.6%	0.4%	\$219,883
Total	29,027	18,163,105,336	100.0%	100.0%	\$59,115,922

**Attachment 2:
Summary of Properties in Business Improvement Areas**

Business Improvement Area (BIA)	Number of Properties in Small Business Property Tax Subclass (by BIA)	Number of Properties in the Commercial Property Class (by BIA)	Total Number of Commercial Properties in the BIA	Percentage of Properties in the Small Business Property Tax Subclass
Albion-Islington Square	90	14	104	87%
Baby Point Gates	63	13	76	83%
Bayview-Leaside	79	19	98	81%
Bloor - Yorkville	590	105	695	85%
Bloor Annex	90	10	100	90%
Bloor by the Park	71	11	82	87%
Bloor West Village	158	13	171	92%
Bloorcourt Village	221	7	228	97%
Bloordale-Village	120	5	125	96%
Broadview Danforth	136	13	149	91%
Cabbagetown	184	13	197	93%
Chinatown	382	18	400	96%
Church-Wellesley	39	8	47	83%
Cityplace Fort York	63	12	75	84%
College-Promenade	124	1	125	99%
College-West	60	5	65	92%
Corso Italia	167	5	172	97%
Crossroads Danforth	98	15	113	87%
Danforth Mosaic	453	25	478	95%
Danforth Village	152	20	172	88%
Dovercourt Village	26	3	29	90%
Downtown Yonge Street	406	81	487	83%
Duke Heights BIA	814	335	1149	71%
Dupont By the Castle	63	27	90	70%
Eglinton Hill	78	2	80	98%
Emery Village	551	379	930	59%
Fairbank Village BIA	84	7	91	92%
Financial District	1,034	112	1,146	90%
Forest Hill Village	1	20	21	5%
Gerrard India Bazaar	91	5	96	95%
Greektown Danforth	226	10	236	96%
Harbord Street	48	0	48	100%
Hillcrest Village	84	3	87	97%
Junction Gardens	149	12	161	93%
Kennedy-Road	43	80	123	35%
Kensington Market	205	8	213	96%

Korea Town	117	2	119	98%
Lakeshore Village	111	10	121	92%
Lawrence Ingram Keele	37	79	116	32%
Leslieville	187	15	202	93%
Liberty Village	42	60	102	41%
Little Italy	150	22	172	87%
Little Portugal Toronto	258	13	271	95%
Long Branch	105	4	109	96%
Marketo District	52	26	78	67%
Midtown Yonge	75	25	100	75%
Mimico by-the Lake	43	11	54	80%
Mimico Village	34	4	38	89%
Mirvish Village	68	3	71	96%
Mount Dennis	66	7	73	90%
Mount Pleasant Village	126	13	139	91%
Oakwood Village	97	7	104	93%
Ossington Avenue	55	49	104	53%
Pape Village	75	6	81	93%
Parkdale BIA	205	15	220	93%
Queen Street West	229	32	261	88%
Regal Heights Village	90	3	93	97%
Riverside BIA	89	17	106	84%
Rogers Road	88	10	98	90%
Roncesvalles Village	252	5	257	98%
Rosedale Main Street	157	14	171	92%
Sheppard East Village	401	46	447	90%
Shop the Queensway	216	48	264	82%
St Clair Gardens	96	6	102	94%
St Lawrence Market	375	131	506	74%
The Beach BIA	272	34	306	89%
The Eglinton Way	97	17	114	85%
The Kingsway	94	13	107	88%
The Waterfront - BIA	281	50	331	85%
Toronto Downtown- West	636	210	846	75%
Trinity Bellwoods	96	7	103	93%
Upper Village	109	2	111	98%
Uptown Yonge	158	26	184	86%
Village of Islington	88	16	104	85%
West Queen West	309	18	327	94%
Weston Village	76	27	103	74%
Wexford BIA	62	49	111	56%
Willowdale	713	65	778	92%
Wilson Village BIA	176	38	214	82%

Wychwood Heights	104	13	117	89%
Yonge & St. Clair	78	36	114	68%
Yonge-Lawrence Village	167	16	183	91%
York-Eglinton	169	9	178	95%
Total	14,824	2,745	17,569	84%