

Audit of Short-Term Rental Program and Municipal Accommodation Tax: Strengthening Bylaw Enforcement and Enhancing Municipal Accommodation Tax Collection Processes

Date: June 20, 2024
To: Audit Committee
From: Auditor General
Wards: All

SUMMARY

Short-term rental services have disrupted housing markets across Canada, with apartments and houses being converted from traditional long-term housing rentals into short-term rentals. The City's Short-Term Rental Program aims to limit short-term rental activity to principal residences and safeguard long-term rental residential housing. City Council approved regulations to govern short-term rentals in late 2017 and 2018, following public consultations.

Toronto Municipal Code Chapter 547, alongside zoning regulations, requires individuals to register if they want to offer short-term rentals and short-term rental companies to obtain licenses. Under these rules, individuals can host short-term rentals on their principal residence for less than 28 consecutive days.

The Municipal Licensing and Standards Division is responsible for administering the Short-Term Rental Program and ensuring that the short-term rental operators and licensed short-term rental companies comply with the City's short-term rental and zoning bylaws. As of February 29, 2024, there were approximately 8,400 registered operators and three (one with no active listings) licensed short-term rental companies in the City.

Revenue Services Division is responsible for collecting and processing the Municipal Accommodation Tax on short-term rental transactions. From 2021, when the Municipal Accommodation Tax came into effect, to February 29, 2024, Revenue Services Division has collected an estimated total of approximately \$20 million in short-term rental Municipal Accommodation Tax.

Our report highlights opportunities for the Municipal Licensing and Standards Division and Revenue Services Division to enhance the Short-Term Rental Program and

collection of the Municipal Accommodation Tax revenue, as well as to ensure the goals of the Short-Term Rental Bylaw are being achieved as intended by:

- A. Strengthening the risk-based compliance framework to help achieve the bylaw's intended goals
- B. Improving program effectiveness and efficiencies
- C. Ensuring Municipal Accommodation Tax Remittance is accurate, complete, and processed in a timely manner
- D. Enhancing key performance indicators and targets to evaluate program effectiveness and efficiency

RECOMMENDATIONS

The Auditor General recommends that:

1. City Council request the Executive Director, Municipal Licensing and Standards, to expand the use of data analytics to reduce non-compliant short-term rentals and enforce compliance with the bylaw.
2. City Council request the Executive Director, Municipal Licensing and Standards, to develop and implement effective risk indicators to identify non-compliant short-term rental operators who use property managers to operate a commercial short-term rental.
3. City Council request the Executive Director, Municipal Licensing and Standards, to:
 - a. Complete the implementation of an Application Programming Interface solution allowing licensed short-term rental companies to verify the registration information of short-term rental operators and minimize the number of non-compliant listings; and
 - b. Hold licensed short-term rental companies accountable for identifying and removing non-compliant listings.
4. City Council request the Executive Director, Municipal Licensing and Standards, to develop a process for proactively identifying and addressing illegally short-term rentals advertising online and unlicensed short-term rental companies.
5. City Council request the Executive Director, Municipal Licensing and Standards, in consultation with the Legal Services Division, to clarify the roles and responsibilities of all involved parties regarding landlord-tenant matters and consider adopting risk-based sampling procedures for verifying landlord consent for short-term rental registrations.
6. City Council request the Executive Director, Municipal Licensing and Standards, to implement risk-based sampling procedures to proactively verify that the short-term

rental operators are permitted by their condominium bylaws to engage in short-term rentals of their principal residence.

7. City Council request the Executive Director, Municipal Licensing and Standards, to develop a comprehensive, proactive, and risk-based framework for compliance and enforcement to assist staff in enforcing the bylaw.

8. City Council request the Executive Director, Municipal Licensing and Standards, to develop service level targets for processing applications and renewals; and create system reports to monitor if the service level targets are met.

9. City Council request the Executive Director, Municipal Licensing and Standards, to triage the emails in the short-term rentals mailbox and ensure information provided by applicants about their application is reviewed on a timely basis; or consider an alternative automated method to improve the efficiency and effectiveness of processing information.

10. City Council request the Executive Director, Municipal Licensing and Standards, to:

a. Work with the Chief Technology Officer to centralize short-term rental case management to the short-term rental database; and

b. Improve tracking of investigation referrals, streamline the compliance and investigation processes, and improve coordination between Enforcement and Compliance teams.

11. City Council request the Executive Director, Municipal Licensing and Standards, to regularly conduct validity checks to ensure that the short-term rental transaction and property information data collected is complete and accurate.

12. City Council request the Executive Director, Municipal Licensing and Standards, to develop, implement, and comply with standard procedures for file documentation and retention for the Short-Term Rental Program, aligned with the City's policy on record retention. The procedures should specify the documents to be retained and their retention length, especially for any information supporting the calculation of the Municipal Accommodation Tax and nightly fees.

13. City Council request the Director, Revenue Services, to:

a. Establish a quarterly reconciliation process that compares Municipal Accommodation Tax remittances with the detailed transaction data provided by licensed short-term rental companies that have also signed a Voluntary Collection Agreement with the City; and

b. Develop procedures for sampling and comparing Municipal Accommodation Tax remittances with the detailed transaction data to be provided by the short-term rental operator upon request and/or by those licensed short-term rental companies without a Voluntary Collection Agreement with the City.

14. City Council request the Director, Revenue Services, in consultation with the Executive Director, Municipal Licensing and Standards, to ensure that short-term rental operators file quarterly reports in a timely manner and consider appropriate remedial actions against non-compliant short-term rental operators, including but not limited to charging interest on late Municipal Accommodation Tax payments and/or revoking their permits.

15. City Council request the Executive Director, Municipal Licensing and Standards, to develop and implement key performance indicators and targets for periodically evaluating the effectiveness and efficiency of the Short-Term Rental Program.

FINANCIAL IMPACT

By addressing the recommendations in this report, the Municipal Licensing and Standards Division and the Revenue Services Division will be able to improve the effectiveness and efficiency of the Short-Term Rental Program and the collection of Municipal Accommodation Tax revenue. The resulting financial implications of any anticipated efficiencies and/or resources needed could not be determined at the time of this report.

DECISION HISTORY

The Auditor General's [2024 Work Plan](#) included an audit of the City's Short-Term Rentals and its associated Municipal Accommodation Tax.

COMMENTS

A high-level summary of key audit findings is provided in the Audit at a Glance.

The attached audit report provides the Audit Committee and members of Council with the detailed audit results and recommendations together with management's response. Management has agreed to all 15 recommendations.

CONTACT

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SIGNATURE

Tara Anderson
Auditor General

ATTACHMENTS

Attachment 1: Audit of Short-Term Rental Program and Municipal Accommodation Tax:
Strengthening Bylaw Enforcement and Enhancing Municipal Accommodation Tax
Collection Processes