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Appendix D

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2026 OPERATING BUDGET BRIEFING NOTE

Impact of Increasing the Municipal Rate Reduction for the Small Business Property Tax Subclass from 15% to 20%

Issue/Background:

During its meeting on January 23, 2026, Budget Committee requested the Chief Financial Officer and Treasurer to prepare a briefing note for the Special Council Meeting on February 10, 2026 on increasing the municipal rate reduction for the Small Business Property Tax Subclass from 15% to 20% for the 2026 taxation year, including the corresponding municipal tax rate adjustment required to offset the impact within the remainder of the commercial property tax class, without affecting the total municipal levy identified in the Mayor's Proposed Budget ([BU12.1](#)).

Key Points:

- The SBSC was implemented in 2022 with a 15% rate reduction to the commercial property class ([EX27.7](#)) with a goal of:
 - Mitigating property tax increases for small businesses whose property assessments exceeded the average increase for the commercial class;
 - Preserving and rebuilding Toronto's Main Streets, helping small businesses to survive through the pandemic, while also encouraging the rebuilding of main streets post-pandemic; and
 - Providing broad tax relief for small businesses located throughout the City.
- As of the end of 2025, there are 28,239 properties in the SBSC with a total current value assessment (CVA) of \$19 billion.
 - This represents 63% of all 44,804 commercial properties in Toronto and 15% of the total commercial CVA of \$129.3 billion.
- The current 15% property tax rate reduction for the SBSC provides \$40.1 million in municipal tax relief for small businesses (or an average of \$1,419 per property), which is funded by the remainder of the commercial property class.

- If the SBSC reduction were increased to 20%, it would result in additional municipal tax relief of \$13.8 million for properties within the subclass, offset by a tax shift within the commercial property class equal to an additional 0.76% tax increase for the remainder of the commercial property class.
 - Actual tax benefits and impacts will vary significantly according to a property's CVA, however, on average, this would result in an incremental benefit of \$487 per property within the SBSC, and an additional property tax increase of \$725 per property in the remainder of the commercial class.

Eligibility Criteria for the Small Business Property Tax Subclass

- The eligibility criteria for the SBSC varies according to a property's geographic location. Eligibility was expanded in 2024 through [CC15.1](#) to enable strip plazas that meet specific definitions to be included within SBSC.

Location	CVA Requirement	Size Requirement	Other Requirements
Anywhere in the City (Excl. Locations Below)	CVA greater than \$10,000 and less than or equal to \$1 million	-	-
Downtown, Central Waterfront, Growth Centres and Avenues	CVA greater than \$10,000 and less than or equal to \$7 million	Lot size less than or equal to 7,500 sq. ft Gross floor area less than or equal to 2,500 sq. ft (for commercial condo)	-
Identified Strip Plazas (since 2024)	CVA greater than \$10,000 and less than or equal to \$7 million	Site area and gross floor area are both less than or equal to 25,000 sq. ft.	Property Codes: <ul style="list-style-type: none"> • 425 Neighbourhood Shopping Centre with Anchor, • 429 Community Shopping Centre, or • 430 Neighbourhood Shopping Centre without Anchor Has two or more attached retail establishments and shared or common parking areas

Additional Impacts of Increasing the SBSC Reduction to 20%

- The additional 5% reduction for the Small Business Property Tax Subclass would require a further 0.76% increase to the municipal tax rate for the remainder of the commercial property tax class, as summarized in Table 1 below.
- A 20% reduction for the SBSC would result in \$53.8 million in total municipal levy savings for the subclass, compared to \$40.1 million under the current 15% reduction.
- The additional 5% reduction, funded through the remainder of the commercial property tax class, would increase the projected ending commercial general tax class ratio from 2.29 to 2.31 and decrease the Small Business Property Tax Subclass ratio from 1.95 to 1.84.
 - Current provincial regulations outline a target tax ratio of 1.98 for the commercial property class. Until the City meets this ratio, it must apply an annual tax increase that is $\frac{1}{2}$ of the residential rate increase. It should be noted that revising the SBSC will delay the amount of time it will take the City to meet the required 1.98 threshold.

Table 1: Impact of Increasing the SBSC Municipal Reduction to 20% in 2026

Class / Subclass	SBSC 15% Reduction		SBSC 20% Reduction		
	Municipal Levy Impact from SBSC Rate Reduction, \$M	Projected Ending Ratio	Municipal Incremental Levy Change, \$M	Rate Impact vs 15% Reduction	Projected Ending Ratio
Commercial General	\$40.07	2.29	\$13.76	0.76%	2.31
Small Business	(\$40.07)	1.95	(\$13.76)	(5.17%)	1.84

- The actual impact on individual properties will vary according to their CVA. Table 2 below provides select illustrative scenarios to outline the potential impact on various property types.

Table 2: Illustrative Impact of 20% Municipal Rate Reduction for SBSC

Type	CVA	2026 Average Municipal Tax Bill	Incremental 20% vs 15% Impact on Municipal Taxes (\$ and %)	
Properties in the Small Business Subclass				
Small Business	\$1,000,000	\$11,991	(\$617)	(5.17%)
Small Business	\$7,000,000	\$83,939	(\$4,322)	(5.17%)
Properties in the Remainder of the Commercial Class				
Commercial	\$1,000,000	\$14,107	\$107	0.76%
Commercial	\$7,000,000	\$98,752	\$749	0.76%
Commercial	\$10,000,000	\$141,074	\$1,069	0.76%
Commercial	\$50,000,000	\$702,935	\$5,347	0.76%
Commercial	\$100,000,000	\$1,405,869	\$10,694	0.76%

Education Levy Impacts

- The Province currently provides a matching 15% rate reduction on education property tax rates to properties in the SBSC.
- The Ministry of Finance has confirmed that if Council approves a change to the SBSC reduction percentage (up to the legislative limit of 35%), the education discount will be automatically applied.
- A matching 20% reduction on the education tax rate for the SBSC will result in \$33.4 million in reduced education taxes for the subclass in 2026. This represents an incremental benefit of \$8.3 million compared to the current 15% reduction (or an average of \$296 per property).

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