

Small Business Tax Subclass Public Consultation Sessions

August 10-11, 2021





Introductions and Rules of Engagement

Rules of Engagement

- Today's session will be recorded, and may be shared with other groups
- If you wish to make a comment or pose a question, please use the Q&A function and identify yourself – we will try to answer all questions.
- Microphones will be muted for all participants.
- Each participant may:
 - Identify a preferred or favoured option
 - Identify alternative or hybrid solutions
 - Identify advantages / disadvantages
 - Identify whether further legislative/regulatory change is required

Slido

slido

Join at
slido.com
#4545



Slido Question (4545)

1. I am attending today's session because I am:
 - A. An owner of a small business in Toronto
 - B. An owner of a large business in Toronto
 - C. A commercial tenant of a business in Toronto
 - D. A member of a business association or business group
 - E. A member of a non-profit group or association
 - F. A resident of Toronto (not a business owner or business tenant)
 - G. Other/none of the above



Background

Background

- In November 2020, the Province announced a special tax subclass for small business properties that may be adopted by municipalities in order to provide relief to small businesses in the commercial class.
- Regulations enacted on May 7, 2021
 - O. Reg. 331/21 (amending O. Reg. 282/98 under the *Assessment Act*) establishes the optional small business property subclass
 - O. Reg. 333/21 (amending O. Reg. 121/07 under the *City of Toronto Act*) sets the maximum municipal reduction factor at 35%.
- May 14, 2021: Ministry of Finance releases bulletin: *New Optional Small Business Property Subclass*.

Context

- Direction from Council
 - To begin consultation and design of a small business subclass for implementation no later than 2022, including financial analysis, program design, additional criteria and process for implementation.
- Existing tax relief
 - Graduated tax rates provide a lower tax rate for the first \$1 million of Current Value Assessment (CVA). Certain business types (parking lots, shopping centres, office towers) are excluded.
 - Capping policies provide relief for all businesses – increases capped at 10%

Council direction on small business subclass

City Council direct the Chief Financial Officer and Treasurer to develop a small business property subclass definition that addresses the following issues:

a. highest and best use assessments

- the small business property subclass definition should address the need to reduce property taxes for small businesses that have endured increases in property assessments beyond the average for the Commercial Tax Class;

b. preserving and rebuilding Toronto's Main Streets

- the small business property subclass definition should support small businesses located on Toronto's main streets, helping them to survive through the pandemic, while also encouraging the rebuilding of main streets post-pandemic; and

c. broad tax relief for small businesses

- the small business property subclass definition should recognize that small businesses are located throughout the City and provide a process to provide broad tax relief to these businesses.

Council direction on small business subclass

Toronto City Council adopted *Towards Recovery and Building a Renewed Toronto* in October 2020 ([EX17.1](#)):

- *“The majority of respondents would like the City to reduce property taxes and improve affordability for taxpayers. Reasons cited for reducing property tax include financial hardship faced by families due to COVID-19 and improving affordability for taxpayers - A minority of respondents favour the City increasing property taxes”* (p. 165)
- “A theme from the Mayor’s Task Force was for the City to use its financial tools to provide support, such as: reforming the commercial tax system to **get main street healthy again** and address long-standing property tax challenges for small businesses (for example, by creating a **capping strategy to manage the impacts of MPAC tax assessments** and creating **additional tax bands for commercial properties**) (p. 166)

Consultations

Municipal decisions can only be made after consultations have been held, all options analyzed and preliminary impacts assessed, including:

- how a tax class will be defined (which businesses will qualify for the small business rate reduction);
- how many businesses may qualify, and what is the total amount required to provide a tax rate reduction;
- how the total costs of tax relief provided to small businesses will be funded;
- how will the program be administered, i.e., need to identify a Request for Reconsideration/Appeal process and appoint both a **program administrator** and an **appellate authority**.



Eligibility Criteria

What is a small business?

Small Business For Property Tax

- Based on:
 - Physical address
 - Current Value Assessment
 - Site characteristics (e.g. lot size, GFA)
- Not connected to:
 - Size of business (e.g. franchises, revenue, employee #)
 - Virtual businesses, businesses operated out of residential, etc

Small Business for Income Tax

- Based on:
 - # employees
 - Revenue generated
- Not Connected to:
 - Bricks and mortar
 - Location, tenancy, place

Challenges with targeting small business relief through Property Tax System

- Property Tax policy limitations
 - Classification tied to property location, CVA, etc. cannot distinguish on “classical” small business characteristics and will capture corporate franchises and similar businesses
- Targeting relief to tenants
 - Depending on the type of lease, a tenant may receive some, all or none of the tax relief
 - Small business tenants in large commercial, shopping and office buildings will not benefit as these properties will not be part of the subclass
- Process for managing properties at the edge of inclusion
 - Need to establish clear guidelines for how properties near inclusion thresholds (geographic, CVA, size, etc) are treated

What could you base a small business tax class definition on?

- Current Value Assessment (set maximum CVA threshold)
- Commercial Property Tax Classifications (e.g. office, shopping, general)
- Physical criteria, e.g. lot size
- Geographic Criteria
- Application based approach (more targeted but administratively burdensome and may introduce accessibility challenges)

Sample Criteria for Main Street Retail and Broad Tax Relief

Policy Goal

Encourage lively main streets with a diversity of small businesses within Toronto's Downtown, Growth Centres and Avenues as defined by Toronto's Official Plan, while also providing broad relief to all small businesses across Toronto.

Definition Criteria:

Located within the City of Toronto's Downtown, Growth Centres or Avenues, as defined by the Official Plan.

Property Class – CT/XT (commercial class/new commercial)

Lot Size – 10,000 sq. ft. | 12,000 sq. ft | 15,000 sq. ft or 20,000 sq. ft.

Commercial Condos included where GFA < 2,500 sq. ft.

Properties with a demolition permit are excluded.

Parking lots and development sites not included.

AND/ OR

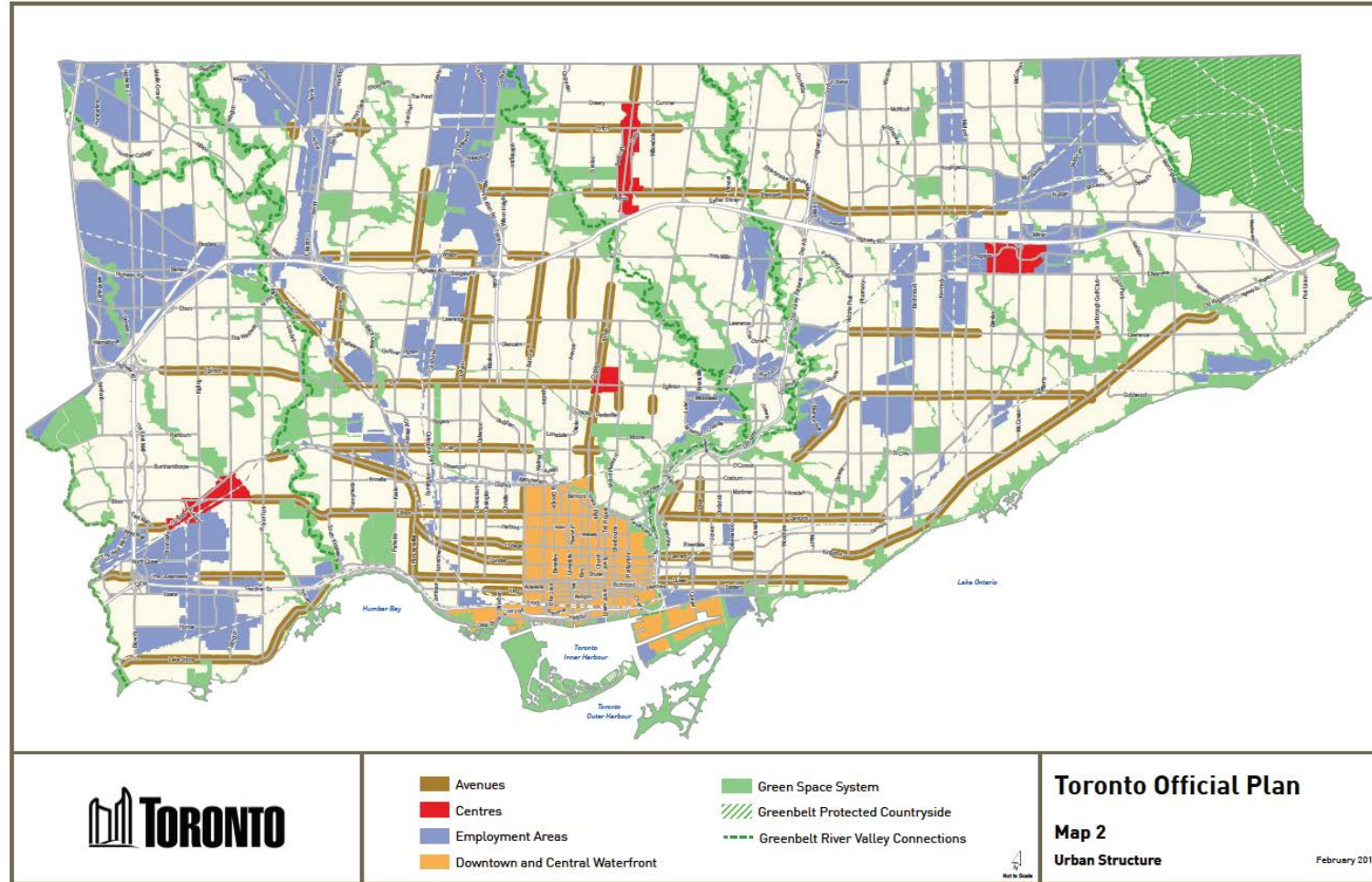
Located Anywhere

Property Class – CT/XT

CVA = or < \$1 million | median | mean

Lot size?

Official Plan



Lot Size - Population of Eligible Properties

Max Lot Size Criteria	N of Eligible Properties	Total CVA of Eligible Properties (\$)
10,000 sq ft	25,900	20.8 billion
12,000 sq ft	26,400	22.3 billion
15,000 sq ft	26,800	23.7 billion
20,000 sq ft	27,300	25.3 billion

*Commercial properties excluding office towers, shopping malls, parking lots, vacant land and excess land

Questions – Slido (4545)

2. Would you support a small business tax subclass targeting small business properties located within the City's Downtown, Growth Centres or Avenues, as defined by the Official Plan?

- A. Strongly support
- B. Support
- C. Neutral
- D. Oppose
- E. Strongly oppose
- F. Unsure

Questions – Slido (4545)

3. Do you think a small business tax subclass should be based on:

- A. Geographic location
- B. Lot size and/or Gross Floor Area
- C. Current Value Assessment (CVA)
- D. Combination of A and B?
- E. Combination of A and C?
- F. Combination of B and C?
- G. Combination of all above?



Discussion

Questions – Slido (4545)

4. Would you support a small business tax subclass targeting small business properties based on lot size??

- A. Strongly support
- B. Support
- C. Neutral
- D. Oppose
- E. Strongly oppose
- F. Unsure

Questions – Slido (4545)

5. Should the maximum lot size be based on:

- A. Under 10,000 square feet?
- B. Under 15,000 square feet?
- C. Under 20,000 square feet?
- D. Unsure

Questions – Slido (4545)

6. Would you support a small business tax subclass targeting small business properties based on Current Value Assessment (CVA)?

- A. Strongly support
- B. Support
- C. Neutral
- D. Oppose
- E. Strongly oppose
- F. Unsure

Questions – Slido (4545)

7. What CVA threshold should be considered?

- A. Up to \$1 million across the City
- B. Up to \$3 million across the City
- B. Up to \$1 million outside the downtown core and up to \$3 million downtown
- C. Up to \$1 million outside the downtown core and up to \$5 million downtown
- D. Unsure



Other Considerations

Commercial Class Profile

Changes to the commercial classes

- Establish one commercial class (including current Commercial Residual and Commercial General)
 - Results in slight reduction of starting ratio and rates for properties in the Commercial General class
- Graduated Tax Rates not applicable any more
 - Properties previously on Band 1 rate are likely to be included in the Small Business (SB) subclass
 - Additional properties from the Commercial Residual Class to be part of Small Business class

Small Business Subclass Model

- For the purposes of guiding this discussion and providing potential impacts, we have modelled a small business subclass with the following characteristics:
 - 26,000 properties ; 16% of commercial CVA
 - 15% municipal rate reduction (Education rate reduction to be matched)
 - \$35 M in municipal tax relief to small business subclass

*impacts based on this model are noted in blue throughout the deck

Funding Implications

Funding within Commercial Class

- Commercial Tax Ratio Increase
- 1.3% tax rate increase in municipal taxes for all commercial properties except small business
- Small business properties would see an additional reduction in the education portion of taxes
- No impact on Residential, Multi-residential or Industrial properties

Funding Across All classes

- Continues Council policy to reduce business and commercial tax ratios
- Increase on Residential and other classes (over and above any budgetary or COVID-related increases)
- One-time tax shift of \$35 million from commercial to other classes (estimated 2022 tax increase of \$26 for average residential property valued at \$700,000).

Funding Impacts

Municipal rate impact of funding the small business subclass

Class	Funding within Commercial (revenue neutral ratio)
Residential	0%
Commercial General	1.3%
Small Business/Commercial Residual*	-7.5% to – 15%
Industrial Class	0%
Multi-residential [frozen]	0%

* Small businesses will see a 15% reduction in education taxes in addition to municipal tax savings

CVA: \$1 million Residual Class to Small Business



Danforth and Victoria Park

Small Business Subclass Tax Impacts (modelled)

Impact	Municipal Taxes (\$)	Education Taxes (\$)	Total Taxes (\$)
Current Municipal Taxes (graduated)	11,135	8,401	19,536
Impact (Funded Within Commercial)	10,299 -835 -7.50%	7,480 -921 -10.96%	17,779 -1,757 -8.99%

CVA: \$5 million Residual Class to Small Business



Yonge Street, south of Wellesley

Small Business Subclass Tax Impacts (modelled)

Impact	Municipal Taxes (\$)	Education Taxes (\$)	Total Taxes (\$)
Current Municipal Taxes (graduated)	58,980	44,500	103,481
Impact (Funded Within Commercial)	51,497 -7,483 -12.69%	37,400 -7,100 -15.96%	88,897 -14,584 -14.09%

CVA: \$5 million Commercial General (no class change)



Dufferin North of Eglinton

Small Business Subclass Tax Impacts (modelled)

Impact	Municipal Taxes (\$)	Education Taxes (\$)	Total Taxes (\$)
Current Municipal Taxes (graduated)	59,807	44,000	103,481
Impact (Funded Within Commercial)	60,585 +778 +1.30%	No impact	104,585 +778 +0.75%

CVA: \$100 million Commercial General (no class change)



Shopping mall

Small Business Subclass Tax Impacts (modelled)

Impact	Municipal Taxes (\$)	Education Taxes (\$)	Total Taxes (\$)
Current Municipal Taxes (graduated)	1,196,140	880,000	2,076,140
Impact (Funded Within Commercial)	1,211,693 +15,553 +1.30%	No impact	2,091,693 +15,553 +0.75%

Questions – Slido (4545)

8. How important do you feel it is to reduce the tax rate for small businesses?

- A. Critically important
- B. Somewhat important
- C. Neutral
- D. Not important
- D. Unsure

Questions – Slido (4545)

9. **Would you still support implementing a small business tax class if the costs of tax relief is to be funded solely from within the commercial class?**
- A. Yes
 - B. No
 - C. Unsure

Questions – Slido (4545)

10. If funded within the commercial class, what would be the maximum one-time tax impact (tax rate increase) to the commercial class you would agree to support?

- A. 1% increase
- B. 3% increase
- C. 5% increase
- D. Up to 10% increase
- D. Unsure



Discussion



Have your say!

Complete our online survey at:
Small business tax relief

Send us your views/opinions in writing:
RSPolicy@toronto.ca

Thank You

