

Small Business Tax Subclass Business Panel Discussion

July 16, 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 be recognized, please raise your hand (click the icon in the Participants window)
- Please keep your microphones muted while not speaking
- You may also pose a question within the Chat function
- Each speaker may:
 - Identify a preferred or favoured option
 - Identify alternative or hybrid solutions
 - Identify advantages / disadvantages
 - Identify whether further legislative/regulatory change is required



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. 332/21 (amending O. Reg. 73/03 under the *Municipal Act*) sets the maximum municipal reduction factor at 35%.
- May 14, 2021: Ministry of Finance releases bulletin: *New Optional Small Business Property Subclass* – ***See OMTRA Evoice May 17, 2021***

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
 - Toronto provides a lower tax rate for the first \$1 million of Current Value Assessment (CVA), excluding certain business types (parking lots, shopping centres, office towers)
 - 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.

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 to be funded to provide a tax rate reduction;
- how will the tax rate reduction be funded – as a new budgetary expense, as a rate increase across all classes, including residential, or as a rate increase within the commercial class.
- 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

- 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
- 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

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

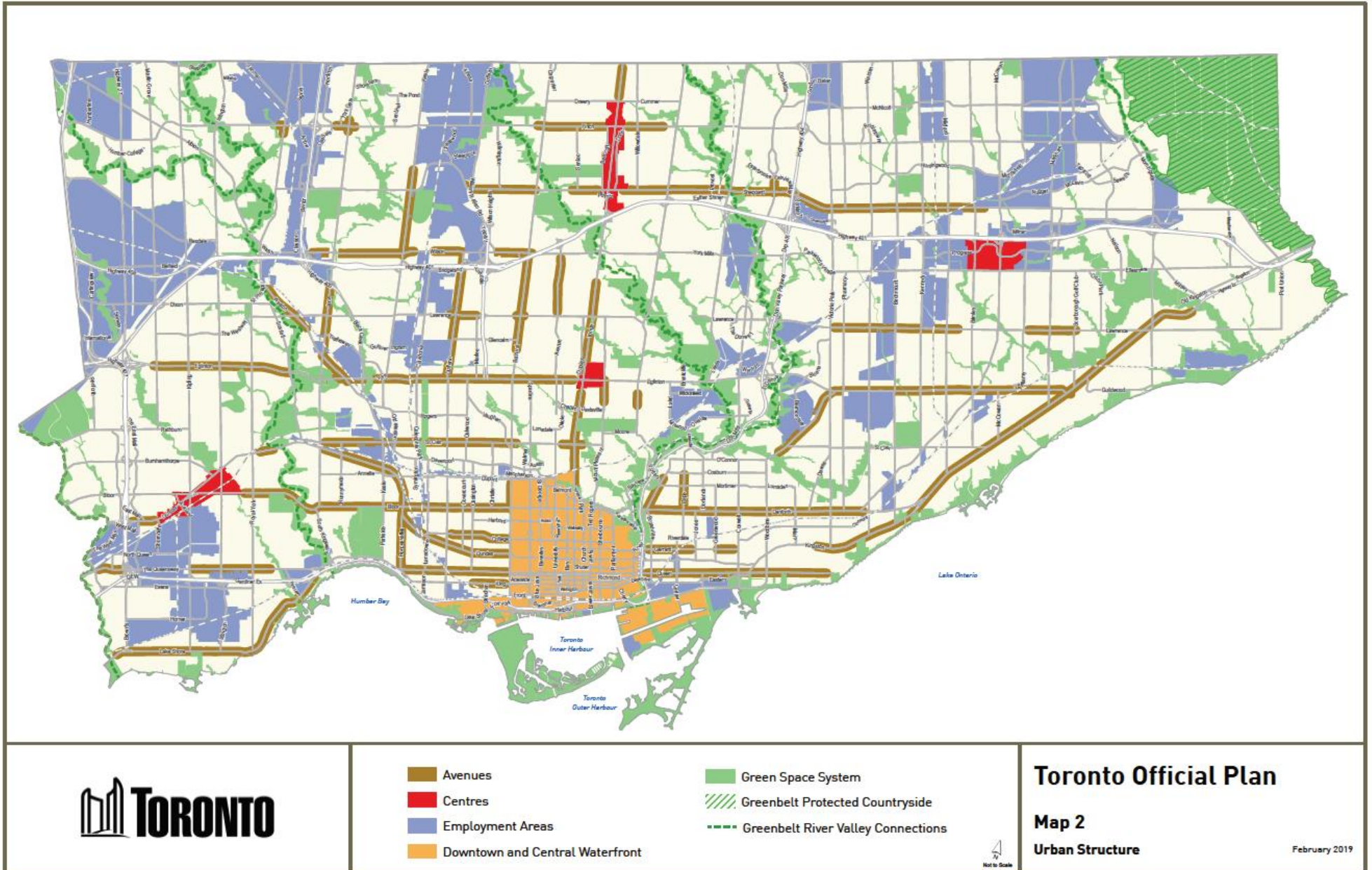
Policy Goal

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.
- 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	% of Commercial Properties* (CT/XT)	Total CVA of Eligible Properties (\$)	% of Class by CVA (CT/XT)
10,000 sq ft	25,900	69%	20.8 billion	34%
12,000 sq ft	26,400	70%	22.3 billion	37%
15,000 sq ft	26,800	71%	23.7 billion	39%
20,000 sq ft	27,300	72%	25.3 billion	42%

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



Discussion



Possible Funding Options

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 SB 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 the Small Business Subclass

- Provincial Regulation set out the following options for funding the small business subclass
 - across all property tax classes
 - within the commercial property tax class through adoption of revenue neutral tax ratios
 - absorbing the cost through a levy decrease
- Funding method remains a political decision

Funding Options Implications

- Funding Across All classes

- Continue Council policy of ratio reduction for commercial properties
- Increase on Residential and other classes
- One-time tax shift of **\$35 million**

- Funding within Commercial Class

- Commercial Tax Ratio Increase (current policy to reduce C ratios to 2.5 by 2023)
- **1.3%** tax rate increase in municipal taxes for all commercial properties except small business
- No impact on Residential, Multi-residential or Industrial properties

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	37,400	88,897
	-7,483	-7,100	-14,584
	-12.69%	-15.96%	-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%



Discussion



Appendices

Checklist (from Ministry of Finance Bulletin – May 14, 2021)

PROGRAM DETAILS

- Have you adopted the subclass through municipal by-law?
- Have you established eligibility criteria for a small business?
- For municipalities in a two-tiered system, have you discussed proposed changes with lower-tier municipalities?
- Have you considered how the subclass would be funded?
- Have you set a discount applicable to the class?
- Have you consulted with local business stakeholders/other interested parties?

Checklist (from Ministry of Finance Bulletin – May 14, 2021)

IMPLEMENTATION

- Have you established an application process or established a criteria-based determination process?
- Have you appointed a Program Administrator?
- Have you appointed an Appellate Authority?
- Have you established a publicly accessible registry of eligible properties?
 - o Assessment Roll Number
 - o Property Address
 - o Unit Number (if applicable)
 - o Leased Space (if applicable)

Checklist (from Ministry of Finance Bulletin – May 14, 2021)

- Have you provided MPAC the list of eligible properties including property details? The list of eligible properties to MPAC would include the following information:
 - o Assessment Roll Number
 - o Property Address
 - o Legal Description
 - o Square Footage
 - o Floorplan (if applicable)
- Have you made a submission to the Minister of Finance to request matching the municipal tax reduction with an education tax reduction? Submission would include the following information:
 - o By-law adopting the subclass
 - o Overview of program requirements
 - o Estimated total municipal tax relief to small businesses
 - o Confirmation of consultation with the business community