
REPORT TITLE: **2021 Tax Capping Policy – Selection of Options**

FROM: Julie Pittini, Acting Commissioner of Finance and Chief Financial Officer

RECOMMENDATION

That a by-law authorizing the Region of Peel to apply the optional tools for tax capping available to it under subsection 329.1(1) of the *Municipal Act, 2001*, as amended, (*Act*) and Ontario Regulation 73/03, as amended, as recommended in the report of the Interim Commissioner of Finance and Chief Financial Officer, as listed on the May 13, 2021 Regional Council agenda, titled "2021 Tax Capping Policy - Selection of Options", be presented for enactment;

And further, that the subject by-law remove property in the commercial property class from capping and clawback of 2021 taxes for municipal and school purposes, by exempting property from the application of Part IX of the *Act* in accordance with Ontario Regulation 73/03, as amended and as recommended in the subject report.

REPORT HIGHLIGHTS

- Regional Council is required to pass a by-law each year to apply one or more of the optional tools in subsection 329.1(1) of the *Municipal Act, 2001*, and Part II.1 of O. Reg. 73/03 as amended, in calculating the amount of property taxes for properties in the (capped) property class.
 - Regional Council has consistently adopted the use of all available optional tools/enhancements at its disposal, as applicable.
 - The Region of Peel (Region) has phased-out the multi-residential and industrial capping programs in 2020. Therefore, all properties in these capping programs will be eliminated from the capping program process and taxed at full CVA tax for the 2021 and future taxation years.
 - A preliminary analysis shows that using the recommended optional capping tools/enhancements will result in 1 commercial property being capped, while 2 properties in the capped property class will have their tax decreases reduced or clawed back.
 - Regional and local municipal Finance staff endorse the continued application of all applicable optional tools/enhancements as a fair means of moving properties in the capped property class toward full Current Value Assessment (CVA) tax levels.
 - The strategy to adopt all applicable optional capping tools/enhancements for the 2021 taxation year will promote a fairer property taxation system.
-

2021 Tax Capping Policy – Selection of Options

DISCUSSION

1. Background

Since 1998, municipalities have been mandated to cap assessment related tax increases on properties in the commercial, industrial and multi-residential property classes (i.e. capped property classes). In response to requests from the municipal sector, the provincial government introduced optional tools/enhancements and provided municipalities with increased flexibility respecting the property tax capping program in order to move more properties to full CVA based taxation. Regional Council has consistently adopted all available optional tools/enhancements at its disposal, as applicable.

Tools Available Under Part II.1 of O. Reg. 73/03

In response to municipal advocacy, the provincial government amended O. Reg. 73/03 to allow municipalities to annually exempt properties from the application of Part IX of the *Act* (capping and clawback provisions) for a taxation year. This allowed municipalities to tax properties in the capped property classes at their full CVA levels as follows:

1. A property that reached CVA level taxes in the previous year is eligible to be removed from the capping program for the current taxation year.
2. A property that crosses over from being a capped property in the previous year to a clawback property in the current year will be eligible to be removed from the capping program for the current taxation year.
3. A property that crosses over from being a clawback property in the previous year to a capped property in the current year will be eligible to be removed from the capping program for the current taxation year.

Additional amendments were made to O.Reg. 73/03 in 2016 as a result of continued advocacy from many municipal and business stakeholders. These amendments included increasing the annual cap to a new maximum of 10 per cent (up from its previous level of 5 per cent) of the property's previous year's CVA level taxes, as well as increasing the threshold to a maximum of \$500 (up from its previous maximum threshold of \$250). The amendments apply to properties that are capped or clawed above and beyond the increase or decrease resulting from the application of all available tools, so that these properties are able to move to full CVA based taxation faster.

The enhancements to O. Reg. 73/03 also included options to exit the program immediately if no properties remained in the capping program, which does not apply to Peel. Additionally, there is an option for a four-year phase-out from the capping program once no capped properties were being taxed at less than 50 per cent of their CVA level taxes in a capped property class.

Increased Flexibility and Additional Enhancement Tools

The Province provided municipalities with the following additional flexibility for 2017 and subsequent years:

1. A municipality is eligible to exclude vacant land from the phase-out eligibility criteria where all capped properties are taxed at 50 per cent or more of their CVA level taxes.

2021 Tax Capping Policy – Selection of Options

2. A municipality is eligible to exclude reassessment related increases, for the current year, from the capping calculation.

The Region utilizes all options at its disposal, however the above stated enhancement tools are not applicable to be used by the Region for the 2021 taxation year.

2. Findings

The Region has phased-out the multi-residential and industrial capping programs in 2020. Therefore, all properties in these capping programs will be eliminated from the capping program process and taxed at full CVA tax for the 2021 and future taxation years. Additionally, the Region of Peel is currently in the second year of its four-year phase-out of the commercial capping program. The Region is not eligible to exit the capping program in 2021 as there remained capped properties in the commercial capping program in the previous taxation year (i.e. 2020).

The use of the following optional capping tools/enhancements is being recommended for 2021:

1. Set the annual cap of the previous year's annualized taxes (i.e. allowed tax increase) to a 10 per cent cap;
2. Set an upper limit on annual increases at the greater of the amount calculated under 1. above or 10 per cent of the property's previous year's CVA level taxes;
3. Establish a maximum \$500 threshold for increasing (capped) properties or decreasing (clawback) properties above and beyond the increase or decrease resulting from the application of the above tools in order to promote the movement of more properties to full CVA based taxation;
4. A property that reached CVA level taxes in the previous year will be removed from the capping program for the current taxation year;
5. A property that crosses over from being a capped property in the previous year to a clawback property in the current year will be removed from the capping program for the current taxation year;
6. A property that crosses over from being a clawback property in the previous year to a capped property in the current year will be removed from the capping program for the current taxation year; and,
7. Implementation of four-year phase-out program for the capped property class.

The preliminary analysis of using the recommended optional capping tools/enhancements available under subsection 329.1(1) of the *Act* and O. Reg. 73/03 as amended, shows the following:

	Capped	Clawed Back	At Full CVA
Number of Properties	1	2	15,432
Percentage of Properties*	0.0%	0.0%	100.0%
Change from 2020*	0.0%	-0.1%	0.1%

The final capping calculation for 2021 will be completed later this month (i.e. targeted for May 27th) and will be the subject of a subsequent report. Regional and local municipal

2021 Tax Capping Policy – Selection of Options

Finance staff are in agreement to use all of the recommended optional capping tools & enhancements as the best available strategy to move as many properties as possible towards full CVA based taxation.

CONCLUSION

Regional and local municipal Finance staff propose that all recommended optional tools/enhancements continue to be applied in 2021 as part of the capping program for properties in the commercial class to promote a fairer property taxation system.

For further information regarding this report, please contact Stephanie Nagel, Treasurer & Director of Corporate Finance, Ext. 7105, stephanie.nagel@peelregion.ca.

Authored By: Kavita McBain, Supervisor, Financial Policy & Development Financing

Reviewed and/or approved in workflow by:

Department Commissioner, Division Director and Legal Services.