

REPORT TITLE: Property Tax Policy Review

FROM: Stephen Van Ofwegen, Commissioner of Finance and Chief Financial Officer

RECOMMENDATION

That a working group comprising of Region of Peel and Local Municipal staff, Municipal Property Assessment Corporation (MPAC) staff, and others, be established to undertake a review regarding the appropriateness and potential introduction of an Optional Small Business Subclass;

And further, that a working group comprising of Regional and Local Municipal staff from various departments be established to commence a stakeholder consultation and to undertake a feasibility and public policy benefit study for potential introduction of an Optional Tax on Vacant Residential Units in Peel Region.

REPORT HIGHLIGHTS

- The 2020 Ontario Budget was introduced on November 5, 2020 and included measures related to property tax and assessment.
 - The 2021 Business Education Tax (BET) rate for commercial and industrial properties is being reduced to 0.88 per cent.
 - The existing property tax exemption for Ontario branches of the Royal Canadian Legion to be applied to Ontario units of the Army, Navy and Air Force Veterans in Canada.
 - New optional assessment approaches or tools are proposed to determine how assessment values are influenced by speculative sales in redevelopment areas.
 - Regulatory flexibility for the Minister of Finance to adjust the current rules regarding the phase-in of property assessment increases are proposed.
 - A new optional small business subclass will be made available for municipalities to provide a property tax reduction for eligible small businesses. Funding of lower rates in the optional small business subclass will be borne by remaining property taxpayers.
 - Region, Local Municipal and MPAC staff will undertake a review of the appropriateness of adopting an optional small business subclass; a fulsome report is anticipated to be brought forward for Council's consideration in the second quarter of 2021.
 - Should Council wish to explore the feasibility of introducing an Optional Tax on Vacant Residential Units (Vacant Home Tax) in Peel Region, a cross-discipline working group comprising of both Regional and Local Municipal staff is recommended to be established to undertake a comprehensive review.
 - The program development for potential implementation of an optional Vacant Home Tax is expected to be multi-phased; staff will keep Council updated of the progress and are aiming to put forward a preliminary analysis towards the end of 2021.
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DISCUSSION

1. Background

As Council is aware, in the early stages of the COVID-19 pandemic, the provincial government released Ontario's Action Plan: Responding to COVID-19 which outlined the government's initial response to the first wave of the global pandemic. The Province has now introduced the next phase of Ontario's Action Plan: Protect, Support, Recover through the 2020 Ontario Budget which was released on November 5, 2020. The intent of this Budget is to maintain stability, address future waves, and begin to build for a strong economic recovery that is fueled by growth. Bill 229 which is "*An Act to Implement Budget Measures and to Enact, Amend and Repeal Various Statutes*" subsequently received Royal Assent on December 8, 2020.

Recommendations in the Budget includes measures related to property tax and assessment. At the time of writing this report, provincial regulations are still pending and will provide additional information and direction on how these measures will be implemented. This report provides Council with an update of the 2020 Ontario Budget measures, as well as information on a Vacant Home Tax (VHT) which was first introduced in April 2017 as a part of Ontario's Fair Housing Plan.

2. 2020 Ontario Budget – Property Tax & Assessment Measures

Reducing Business Education Taxes

Across the Province, there is a wide range of Business Education Tax (BET) rates which creates a challenge for businesses operating in communities with higher rates. For the 2021 taxation year, a single province-wide business education tax rate of 0.88 per cent will apply to all properties in the commercial and industrial classes. In Peel, the reduction of the BET rates to 0.88 per cent will result in the following decreases:

Property Tax Class	2020 BET Rate*	2021 BET Rate	BET Rate Change
Commercial	0.944727%	0.880000%	-7%
Commercial – New Construction	0.944727%	0.880000%	-7%
Industrial	1.066032%	0.880000%	-17%
Industrial – New Construction	0.980000%	0.880000%	-10%

*Prior to 2021, the Commercial/Industrial BET rates are set by the Province on a municipal basis (i.e. Upper/Single-Tier or County), with the same BET rates applicable to all local municipalities in Peel.

Based on the assessment roll used for 2020 taxation, the impact of the reduced BET rates to the taxable business properties in Peel is shown below, by local municipality:

- Town of Caledon: \$2.4M
- City of Brampton: \$14.7M
- City of Mississauga: \$31.5M

In a two-tier municipality such as Peel, the local municipalities retain the education portion of the calculated payment-in-lieu-of taxes (PILT) revenue for certain properties. To ensure municipalities are not negatively impacted by the BET reductions, the Province

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subsequently announced in a letter dated November 17, 2020, that the BET rates for 2021 will be maintained at the 2020 rate for properties whose PILT education taxes are retained by the municipality. Therefore, the reduction in the BET will not have any impact on these retained PILT education revenues for the local municipalities in the Region.

Additionally, the properties owned by the Region (e.g. Water Treatment, Sewage Treatment or Water Transfer Stations) that are classified as commercial and industrial and whose PILT education taxes are retained by the local municipalities, will not see any changes in education tax rates between the 2020 and 2021 tax years. These Region-owned properties will continue to pay the education portion of the property taxes based on the 2020 BET rates.

To ensure this measure does not have a financial impact on school boards, the Province will adjust payments to school boards to offset the reduction in the education property taxes.

Property Tax Exemption for Ontario units of the Army, Navy and Air Force Veterans

The Budget proposes a change to the *Assessment Act* to apply the existing property tax exemption for Ontario branches of the Royal Canadian Legion to Ontario units of the Army, Navy and Air Force Veterans in Canada, for 2019 and subsequent tax years. Provincial regulations are still pending and will provide additional information and direction on how these changes will be implemented. The Region welcomes this tax policy change as it reflects Regional Council's view on equality and fairness in the tax treatment of veteran groups. Regional Council's resolution regarding advocacy for property tax exemption under Bill 57" (Resolution 2020-939), presented at its meeting on November 12, 2020, respectfully requests that the amendment be implemented as soon as possible to ensure that the veteran clubs benefit from the exemption in a timely manner.

Review of Ontario's Property Assessment and Taxation System

The Province is in the process of conducting a review of Ontario's property tax and assessment system. The Review is exploring opportunities to support a competitive business environment, enhance the accuracy and stability of property assessments, and strengthen the governance and accountability of the MPAC. The consultation process is ongoing, and the Province will continue consultations with municipalities to seek input through the Property Assessment and Taxation Review Municipal Advisory Committee.

Assessment of Business Properties in Redevelopment Areas

One of the concerns that has been identified through the property assessment and taxation review is the impact of redevelopment pressure on small businesses. In areas that are experiencing high demand for redevelopment, there is potential for speculative sales to impact property assessments, which in turn can impact property tax burdens.

Amendments to the *Assessment Act* are being introduced to support the potential creation of optional new assessment tools to address these concerns regarding redevelopment and speculative sales. This tax policy option will be reviewed by the Region and local municipal staff at a later date, since considerable research is required to assess if the speculative sales impact property assessments in Peel. At this time, Regional and local municipal staff are focusing their attention on the review of the optional small business property subclass.

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Phase-in of Property Assessment Increases

As announced in the March 2020 Economic and Fiscal Update, the Province postponed the 2021 property tax reassessment update which was scheduled to be conducted during 2020 for the 2021 taxation year. As a result, the Province is proposing an amendment to the *Assessment Act* that would provide regulatory flexibility for the Minister of Finance to adjust the current rules regarding the phase-in of property assessment increases. This would allow the Minister to change the phase-in parameters for subsequent reassessments, which may be necessary as a result of the postponement of the 2021 reassessment.

The current assessment cycle is four years, with a phase-in of assessment increases of 25 per cent each year; decreases are recognized in the first year of the assessment cycle. Any changes to the phase-in parameters may impact the magnitude and distribution of the property tax burden among the properties in Peel. Further information will be made available once the legislation is passed and the regulations are issued.

Optional Small Business Property Subclass

Beginning in 2021, changes to the *Assessment Act* will allow municipalities to adopt a new optional property subclass for small business properties. This subclass will allow for a lower rate of taxation to be applied to eligible small business properties. The parameters for determining how a property qualifies for inclusion, as well as the tax rate reduction to be applied to the subclass, will need to be established by the Region, and would apply to all three local municipalities. The Province has indicated that it will consider matching municipal property tax reductions with a reduction on the education tax portion. Municipalities will be notified of the requirements to implement the subclass and the process for provincial consideration once the regulation has passed.

If implemented in Peel, the tax reduction applied to this new subclass will shift the property tax burden to all other property classes, including residential. Additionally, the timing of implementation of the subclass may have further financial implications for the Region and its local municipalities. If the Region implements this subclass starting in 2021, this will result in municipal tax write-offs/tax losses for that year. It must be emphasized that due to the timing of this proposed measure by the Province, the subclass will not be included by Municipal Property Assessment Corporation (MPAC) on the returned roll for the 2021 taxation year, hence the subclass reduction will not be incorporated in the 2021 tax rate setting by the local municipalities (i.e. inability to shift these reduction costs to other property tax classes for 2021).

3. Optional Tax on Vacant Residential Units

On May 17, 2017, *Bill 127, Stronger, Healthier Ontario Act (Budget Measures), 2017* received Royal Assent and implemented measures contained in the 2017 Ontario Budget. This legislation change was first introduced in April 2017 as a part of Ontario's Fair Housing Plan. The stated objective was to empower the City of Toronto and potentially other interested municipalities to introduce a vacant homes property tax to encourage property owners to sell unoccupied units or rent them out to address concerns about residential units potentially being left vacant by speculators. The *Municipal Act, 2001* now includes Part IX.1 Optional Tax on Vacant Residential Units, which provides a designated municipality the authority to impose a tax on the assessed value of vacant units that are classified in the residential property class and that are taxable under the *Assessment Act* for municipal purposes.

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The City of Toronto was provided with this authority in 2017 under the *City of Toronto Act, 2006*, and is moving towards implementation of a Vacant Home Tax (VHT) in 2022. Other municipalities in Ontario must first become designated by the Province before they can impose this tax. The Region, as an upper-tier municipality, may seek this designation from the Minister of Finance.

The *Municipal Act, 2001* sets out certain requirements and conditions relating to the imposition of a VHT by a municipality including that it must be imposed by a by-law stating the tax rate and identifying the conditions of vacancy in the year to which it relates. In addition, the legislation states that such a by-law may provide for such matters as the council of the municipality considers appropriate, including: exemptions from the tax; rebates of tax; audit and inspection powers; and, except as otherwise provided for in the regulations, the establishment and use of dispute resolution mechanisms. Once enacted, the by-law will apply to, and the program will be administered by, the local municipalities in Peel.

4. Next Steps

Regional and local municipal staff have started preliminary discussions in November and December 2020 on key tax policy considerations. Considerations of policy tools such as the Optional Small Business Subclass and the Vacant Home Tax should encompass other regional and local municipalities' policy objectives and council priorities.

Staff recommend that a working group comprising of Region and Local Municipal staff, MPAC staff, and others, be established to undertake a review regarding the appropriateness and potential introduction of this subclass in Peel. Staff will report back in the second quarter of 2021 with an update on this subclass review.

Should a review of a Vacant Home Tax be desirable by Council, staff also recommends that a second working group be established to undertake this review, including a feasibility and public policy benefit study for potential introduction of the Tax in Peel. This group will comprise of staff from the appropriate Regional departments such as Finance, Planning, Housing and Legal, as well as the appropriate local municipal staff (as determined by the local municipalities). Development of a potential Tax is expected to be multi-phased. Staff will bring back a series of reports on the program's progress, starting with a preliminary analysis towards the end of 2021.

Staff will continue to meet starting with a scheduled meeting later in January. Staff requests Council's approval to proceed with the review process including meeting with the stakeholders and engaging with an external consultant on developing the policies. Both policy tools are relatively new to municipalities; while awaiting further regulation details and policy information from the Province and MPAC, staff will be prioritizing the review of the optional small business subclass policy since this tool would be the most relevant as small businesses in Peel face challenges associated with the COVID-19 pandemic.

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CONCLUSION

Region and Local Municipal staff have started preliminary discussions on the Optional Small Business Subclass and the Vacant Home Tax, with future meetings scheduled in the coming months. Staff requests Council's approval to proceed with the review process including meeting with the stakeholders and engaging with an external consultant on developing these policies. Staff will report back throughout the year, with the first report on the subclass expected in the second quarter of 2021. The *Municipal Act, 2001* provides a designated municipality the authority to impose a Vacant Home Tax. The Region, as an upper-tier, will need to seek designation from the Minister of Finance for this authority. An update on the Vacant Home Tax will be provided towards the end of 2021.

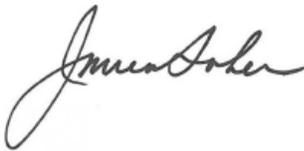
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Reviewed and/or approved in workflow by:

Department Commissioner and Division Director.

Final approval is by the Chief Administrative Officer.



J. Baker, Chief Administrative Officer