
REPORT TITLE: Optional Small Business Subclass Review

FROM: Gary Kent, CPA, CGA, ICD.D, Chief Financial Officer and Commissioner of Corporate Services

RECOMMENDATION

That the proposed direction described in the report of the Chief Financial Officer and Commissioner of Corporate Services, listed on the October 28, 2021 Regional Council agenda titled “Optional Small Business Subclass Review”, be endorsed.

REPORT HIGHLIGHTS

- The Province of Ontario passed amendments to the *Assessment Act* and the associated regulations in May 2021 which have provided municipalities with an option to provide a property tax reduction to eligible small businesses.
- A working group comprised of Region of Peel and the local municipalities staff has been established and has engaged with various stakeholders in reviewing the optional small business subclass (the “Subclass”).
- The Subclass was initially introduced in response to ongoing advocacy by certain municipalities; to that end, it is a welcome measure for those municipalities who experienced small business taxation issues to address their concerns.
- As the working group continues to unpack the requirements and the implications of the Subclass, critical elements and challenges associated with adopting the Subclass in Peel have been identified.
- The municipal tax system does not have available data that enables for differentiation between small business and small properties; that coupled with obstacles related to enforcing the tax reduction benefit being passed onto tenants would bring about uncertainties around the effectiveness of the Subclass.
- A robust administration system needs to be established to meet the legislated prescribed requirements for the program administration and appeal process; that in turn would add significant annual operating budget and taxation pressure for the Region of Peel and the three local municipalities.
- There is no dedicated provincial funding to fund the municipal tax reductions for the Subclass; any tax reductions for the Subclass would need to be borne by other tax classes.
- Staff is not recommending implementing the Subclass in Peel at this time. This approach is considered as fair, prudent and would be the most administratively efficient while avoiding undesirable tax shifts.
- Should Council wish to adopt the small business subclass in Peel, Council can direct staff to initiate a public consultation process to engage for broad public input on various options to help identify a viable approach for implementation.

Optional Small Business Subclass Review

DISCUSSION

1. Background

As announced in the 2020 Ontario Budget released in November 2020, the Province of Ontario is providing municipalities with the flexibility to target property tax relief to eligible small businesses through the adoption of a new optional small business property subclass.

At the January 14, 2021 Regional Council meeting, Council approved a resolution directing staff to commence the work to assess the appropriateness and applicability of potential adoption of the Subclass in Peel Region.

Subsequently, the regulations governing the Subclass were filed on May 7, 2021 and a bulletin was issued by the Minister of Finance, which provided details on implementation, requirements for municipal by-laws and administration of the subclass.

A working group comprised of Region of Peel and local municipal staff has been established and has engaged with various stakeholders in reviewing the Subclass. This report provides Council with an overview of the optional small business subclass as prescribed in Ontario Regulation 331/21. Findings from the Subclass review are presented for Council's consideration and direction.

2. Subclass Eligibility Criteria

a) Definition of Small Business

The Province has left it with municipalities to determine eligibility criteria for the purpose of providing a small business subclass property tax reduction. Small business is not defined in either the *Municipal Act, 2001* or the *Assessment Act* as it relates to property taxation. There are a variety of definitions of small business in Canada. Most organizations define small business according to their needs. For example, Industry Canada's definition of "small business" is firms that have fewer than 100 employees, while its Canada Small Business Financing Program defines small business as a firm that has \$5 million or less in annual revenue. Attributes such as number of employees, annual revenue or annual income are commonly used thresholds to identify small business, however this type of data is not available in the Municipal Property Assessment Corporation (MPAC) property assessment database. Municipalities have limited capacity to obtain, maintain, or verify that information for property taxation purpose.

There is information currently available in the MPAC's database that could potentially be considered for parameters in defining small business for the Subclass. These options are discussed below.

i) Current Value Assessment (CVA)

The CVA for each property is provided by MPAC and is used, in conjunction with the property tax rates, to calculate the property taxes annually. For example, if the Subclass By-law uses a CVA amount of \$1,000,000 as a threshold, any commercial or industrial properties with a CVA lower or equal to that amount would be eligible for the small business subclass. However, a potential concern with using this parameter would be that properties with a CVA of \$1,000,001 not only would not be

Optional Small Business Subclass Review

eligible for the small business tax reduction but also could be paying extra tax due to the resulting tax shift. This raises the question of whether this policy would be equitable for all property owners and it could potentially prompt an increase in assessment appeals in an attempt to meet the CVA threshold. Furthermore, when a property's assessment value becomes higher than the threshold, the tax increase for the property would be driven by both the increased reassessment value and higher tax rate (i.e., ineligible for the Subclass). If the CVA measure is used as a parameter for the Subclass definition, it would need to be reviewed and monitored regularly to ensure it continues to align with the initial intended subclass characteristics.

ii) Property Code

The Region and local municipalities have access to the MPAC's property codes which define the primary use of a property. Using these codes as criteria, it may be determined which property use classifications lend themselves to a small business definition. However, the use of a property does not necessarily identify whether the occupant is a small or large business. Furthermore, the property codes are not specifically designed to capture the nature of the commercial / industrial businesses, but rather they were intended for MPAC's administrative purposes. Although, the property code data is available through MPAC, it has not been confirmed how accurately the codes define the actual use of properties. The property codes would need to be used with other data parameters to identify small business properties.

iii) Physical Attributes (square footage)

Although there are instances where the physical attributes data is missing in the MPAC property record, information on properties' total floor area and lot size is mostly available to municipalities. These data parameters could be used to identify small business properties by setting specific thresholds to consider small business characteristics. However, these parameters may identify properties that are "small in size" and not necessarily small businesses. Also, the property square footage information is based on property ownership and does not provide a break-down amongst multiple units that may exist on the property (i.e. these totals are rolled up at the property level). Classification tied to only physical attributes cannot distinguish small business characteristics and will capture corporate franchises and similar businesses. Therefore, these measures need to be used in conjunction with other variables to identify small business properties.

b) Application Based or Criteria Based Program

The Regulation provides that a municipality has the option of implementing either an application-based or a criteria-based process in order to determine which properties are to be included in the Subclass.

While both approaches would require that small business definition and implementation parameters be set out in the Subclass By-law, under a criteria-based process, eligible properties would be selected solely based on parameters prescribed in the Subclass By-law.

Optional Small Business Subclass Review

Under an application-based process, an application must be submitted to the Program Administrator for a property to be approved for inclusion in the small business subclass. An application-based program seems to lend itself better to a need-based tax relief program and might help mitigate risks associated with potential appeals. Preliminary analysis also suggests that an application-based process that incorporates requirements for commitment from landlords would be the only path that could ensure that landlords pass on the tax reduction benefit to tenants. However, an application-based process generally would add additional administrative requirements for potential applicants; it would be burdensome to administer and would add significant administration and cost pressure to the Region and the local municipalities which may offset the tax reduction benefit being offered.

c) Tax Reduction Benefit from Landlords to Tenants

It is important to note that the property taxes are levied directly on the property owner and not the tenants who actually occupy the individual property units. According to MPAC's aggregate estimates using the 2021 tax year roll return data, over 50 per cent of commercial and industrial properties in Peel are tenant-occupied.

The Bulletin issued by the Province noted that municipalities may choose to require in the municipal by-law that landlords pass the tax reduction to tenants as a condition of eligibility in the subclass. However, whether a landlord is required to pass the subclass tax reduction to its tenant(s) is typically determined by the lease agreement; the legislation does not provide a municipality with an authority to enforce or bind the landlord. A municipality could remove the property from the eligible small business property list when non-compliance is found, which means neither the property owner nor the tenant would benefit from the tax reduction. However, local municipalities do not have access to tenant information that may be used for audit. These processes would add an additional level of complexity as to how to operationalize the program and the administrative cost is anticipated to be high. Additionally, there are risks around municipal staff being caught in potential disputes between a landlord and a tenant.

3. Subclass Program Administration and Appeal Process

Municipalities are responsible for establishing detailed eligibility criteria for the Subclass, which includes developing and administering a process to identify or approve eligible properties for inclusion. As legislated, a Program Administrator (Administrator) and Appellate Authority (Appellate) must be appointed through by-law to administer the program. The Program Administrator will need to identify all qualifying properties to be classified in the commercial and/or industrial property classes that meet the eligibility criteria and is also required to establish a process where an owner may challenge the decision by making a request for reconsideration. The Appellate Authority will hear any appeals about whether the property should be included in the subclass.

The Regulation prescribes a number of requirements a municipality must perform in administering the program after establishing the Subclass. Once the designated Program Administrator has decided on the eligible properties, MPAC must be notified so that they can classify the property within the small business property subclass for taxation purposes. All properties approved for inclusion in the Subclass must be listed in a publicly accessible registry, and include information such as: assessment roll number, property address, unit number and leased space, as applicable. The Administrator is required to monitor ongoing

Optional Small Business Subclass Review

eligibility, update the registry of eligible properties and notify MPAC when properties become eligible or ineligible for the subclass as a result of a municipal determination.

The Regulation prescribes provisions that give the Treasurer and the Clerk of a municipality a distinct role other than Program Administrator and the Appellate Authority. For example, Section 23.0.12 of the Regulation provides that under an application-based process, an application may be submitted by the Treasurer of a municipality to the Program Administrator. Therefore, adequate segregation of duties needs to be in place for roles of Clerk, Treasurer, Program Administrator and the Appellate Authority.

Additionally, the Program Administrator and the Appellate have the power to make decisions on an application submitted by the Treasurer, of which the role of the Appellate Authority would need to be appointed to an employee who is not only able to make decisions and is well versed in the subject matter but also perceived as independent to the process.

The Regulation provides that both roles of the Program Administrator and the Appellate Authority may be municipal staff from either the upper-tier or lower-tier but cannot be from both; this adds additional complexity as to who should be the most appropriate employees to be appointed in a two-tier municipality.

The prescribed additional requirements for the Subclass Program Administrator and Appellate Authority could potentially cause confusion or duplication in some instances particularly related to appeals. This requirement might diminish the value of the existing municipal property tax regime which saw a transformative reform in 1996 where property tax functions such as assessment and the updates to property tax rolls were transferred and centralized in MPAC which is funded by municipalities.

In summary, additional full time permanent complements would be needed for the Region and the three local municipalities. System updates and process changes are also required to facilitate all necessary administrative steps. Incremental costs may also include professional services, communication, and other business support. Preliminary analysis suggests that the annual incremental budget pressure associated with the added administration burden is estimated in excess of \$1 million and could be well above that level if a high volume of year over year change or appeal were to be experienced. It is difficult to accurately predict and quantify the budget pressure associated with potential implementation; the cost estimates have a high level of variability driven primarily by an unknown level of appeal volumes and the associated risks.

4. Tax Implication Analysis

The Bulletin issued by the Province confirmed that there is no provincial funding dedicated for municipalities to provide a small business subclass municipal property tax reduction. A municipality can fund the Subclass using one of the following options:

- Fund by absorbing the cost
- Fund broadly across all property classes
- Fund within the commercial and/or industrial property class through adoption of revenue neutral tax ratios

To help illustrate how the potential adoption of the Subclass may affect Peel taxpayers, preliminary analysis has been conducted. The case study below is presented for illustrative purposes based on some potential parameters.

Optional Small Business Subclass Review

a) Case Study

Assumptions

Calculated estimates for three funding options are based on the following assumptions:

- Included in the Optional Small Business Subclass are properties assessed/classified as Commercial or Industrial with CVA less than or equal to \$1 million and further selected based on the primary use and exclusions that lend themselves to small business characteristics as determined by the Working Group
- Subclass discount of 10%
- Calculations based on the Returned Roll for 2021 Taxation
- The costs of program administration and appeal process are not included in this analysis

CVA and Number of Properties

Table 1: CVA & Number of Properties - Small Business Subclass

Municipality	Small Business Subclass	CVA (\$)	# of Partitions
Mississauga	Commercial	1,323,786,857	4,027
	Industrial	124,392,200	343
Brampton	Commercial	1,067,657,138	3,222
	Industrial	116,079,900	323
Caledon	Commercial	125,648,939	355
	Industrial	14,825,100	52
Total:		2,772,390,134	8,322

The case study assumptions result in a total of 8,322 commercial and industrial partitions with a total CVA of approximately \$2.8B being preliminarily included in the Optional Small Business Subclass. These subclass partitions represent approximately 45% of total partitions/properties and 5% of total CVA in the commercial/industrial property tax classes in Peel.

Funding Option 1: Fund through levy decrease

Table 2: Total Tax Revenue Loss

	Small Business Subclass	City/Town (\$)	Region (\$)	Education (\$)	Total (\$)
Mississauga	Commercial	581,271	724,156	1,164,919	2,470,346
	Industrial	58,150	72,445	109,465	240,060
Brampton	Commercial	598,296	522,980	939,538	2,060,814
	Industrial	73,720	64,440	102,150	240,310
Caledon	Commercial	63,838	46,594	110,571	221,003
	Industrial	8,893	6,491	13,046	28,430
Total:		1,384,168	1,437,106	2,439,690	5,260,965

Note: Numbers may not add up due to rounding

In essence, this funding option would require the Region and the local municipalities to absorb the revenue loss through a budget cut. The tax levy loss to the local municipalities, the Region, and the Province (i.e. assuming that the program is matched by the Province) is estimated in the approximate amount of \$1.4M, \$1.4M and \$2.4M respectively.

Funding Option 2: Fund broadly across all property classes

Optional Small Business Subclass Review

Under this funding option, the tax reduction for the Subclass would be primarily borne by the residential property class. Based on the 2021 municipal property tax information, if the Subclass program is implemented and funded broadly across all property tax classes, it would result in a shift of the property tax burden of approximately \$2.8M away from the commercial and industrial small business subclass properties and onto other property tax classes (primarily residential properties in the approximate amount of \$2M). Additionally, the implementation of the Subclass program would also create a small shift in the apportionment of the Region's levy between local municipalities, with \$88k shifting away from the City of Brampton and onto the City of Mississauga (\$80.5k) & Town of Caledon (\$7.5k).

Table 3: 2021 Property Tax Revenue Shifts

Property Class	2021 Upper & Lower-tier Property Tax Revenue			
	Caledon (\$)	Brampton (\$)	Mississauga (\$)	Total Region (\$)
<u>Who Benefits</u>				
Commercial – SBS*	(109,419)	(1,108,342)	(1,291,117)	(2,508,877)
Industrial – SBS*	(15,243)	(136,566)	(129,163)	(280,973)
Sub-Total Benefits:	(124,662)	(1,244,908)	(1,420,280)	(2,789,850)
<u>How Discount Funded</u>				
Residential	105,682	907,007	989,875	2,002,564
Commercial – Other	18,425	167,464	366,337	552,225
Industrial – Other	6,076	48,682	72,982	127,739
Other**	1,992	33,776	71,554	107,322
Sub-Total Funding:	132,175	1,156,928	1,500,747	2,789,850
Total:	7,513	(87,980)	80,467	\$ 0
<i>*SBS – Small Business Subclass **Other includes: Multi-Residential, Farmland, Managed Forests and Pipelines</i>				
<i>Note: Numbers may not add up due to rounding</i>				

The average small business property in the commercial class, assessed at \$338,000 and paying \$3,300 in municipal taxes could receive a \$324 discount on municipal taxes (Region/local). Also, the average small business property in the industrial class, assessed at \$336,000 and paying \$3,700 in municipal taxes could receive a \$364 discount on municipal taxes (Region/local). The average municipal property tax increase (Region and local) for the residential taxpayer would be approximately \$5 based on the average residential assessment value in each local municipality.

Funding Option 3: Fund within the commercial and/or industrial property class.

The underlying tax ratio neutrality approach in this option is a complex calculation process. In Peel Region, the adoption of notional tax adjustment by the Region and the annual tax ratio setting being delegated from the Region to three local municipalities, both of which add a level of complication to the calculation. The funding of the small business subclass within the commercial and industrial property class through adoption of revenue neutral tax ratios would result in a total shift of the property tax burden away from the small business subclasses (approximately \$2.5M) as well as from the residential class (approximately \$3.6 million), and primarily onto those commercial and industrial properties that are not included in the subclass (i.e. approximate shift of \$5.7M). Despite that the intent of tax ratio neutrality approach was to limit the tax shift within the commercial and/or industrial property class, additional shifts among other property tax classes (i.e. residential) resulting from the adoption of the notional tax

Optional Small Business Subclass Review

adjustment in Peel would be triggered since the revenue neutral tax ratios approach requires that tax shares by class be maintained at the previous year's level.

b) Additional Scenario Analysis

To illustrate how the Subclass may affect property taxes using other parameters, further scenario analysis has been conducted which is summarized as follows.

Table 4: Small Business Subclass (SBS) Scenario Analysis

Scenarios / Parameters	Option 1	Option 2		Option 3	
	Municipal* Property Tax Revenue Loss	Average Municipal* Tax Reduction for Eligible SBS Properties	Average Municipal* Tax Increase for Residential Properties	Average Municipal* Tax Reduction for Eligible SBS Properties	Average Municipal* Tax Increase for Commercial/ Industrial (not in the SBS)
CVA <= \$1M & 10% discount	\$2.8M	Comm - \$(324) Ind - \$(364)	\$5	Comm - \$(290) Ind - \$(344)	Comm - \$617 Ind - \$332
CVA <= \$3M & 10% discount	\$4.1M	Comm - \$(445) Ind - \$(461)	\$8	Comm - \$(388) Ind - \$(433)	Comm - \$844 Ind - \$400
CVA <= \$1M & 35% discount	\$9.9M	Comm - (1,138) Ind - \$(1,278)	\$17	Comm - (1,087) Ind - \$(1,254)	Comm - \$1,368 Ind - \$651
CVA <= \$3M & 35% discount	\$14.5M	Comm - (1,566) Ind - \$(1,621)	\$26	Comm - (1,467) Ind - \$(1,583)	Comm - \$2,111 Ind - \$868

*Upper & Lower-tier Changes

POLICY CONSIDERATIONS

1. Tax Policy Principles and Objectives

The Region's tax policy development follows overarching principles which guide the assessment of the appropriateness of a tax policy or a tax relief measure:

- Equality and Fairness
- Predictability and Stability
- Ease of Administration
- Accountability to Taxpayers

The Region has been taking a deliberate, integrated and collaborative approach to assess the appropriateness and applicability of a Subclass tax policy. Through this approach, Regional staff have been engaging with various groups to support the Subclass policy review. This involved several activities summarized as follows:

- Establish a Subclass Working Group comprising staff from Local Municipalities' Tax Teams
- Leverage the Subclass Working Group to engage other stakeholders such as Economic Development at local municipalities, Regional Planning, Economists
- Participate in various discussion forums hosted by municipal partners such as MPAC, Ontario Municipal Tax and Revenue Association, Municipal Finance Officers' Association of Ontario, The Greater Toronto and Hamilton Area Subclass Working Group
- Engage in conversations with business community by invitation

Optional Small Business Subclass Review

As we continue to unpack the requirements and the implications of the Subclass, critical elements and challenges associated with the adopting the Subclass have been identified which are discussed throughout this report and are summarized herein.

Tax relief, if implemented, should be structured as a need-based program to ensure its effectiveness. There is a distinct difference between definitions of a small business owner vs. a small property owner; defining “small business” would require the definition for the Subclass to extend beyond parameters available through the property tax characteristics in order to ensure that the Subclass effectively provides targeted support to businesses in need. Given that municipalities have limited access to obtain and maintain business feature data for property taxation purposes, there remain challenges in identifying a sensible approach that may provide a clear and fair definition to support the intended policy objectives.

There are concerns regarding potential lack of stability to taxpayers. For example, if the subclass is eliminated after adoption or when a property becomes ineligible for being included in the Subclass, the property taxes could bounce back which might cause a tax burden due to a proportionally higher tax increase than the reduction percentage; this rebound would be even higher if it happens in a year of MPAC reassessment. If CVA is used as an eligibility criteria, the properties in a future intensification/urbanization area would be at a higher risk of facing this issue due to elevated property values relative to other areas within a municipality.

The annual incremental budget pressure associated with the added administration burden would add additional tax burden to property owners in Peel, thus potential financial benefits associated with the Subclass is likely to be offset by the anticipated high administration cost.

The Bulletin indicated that the Minister would review each submission from municipalities and determine whether to match municipal reductions with provincial education property tax reduction on a case-by-case basis. There is no dedicated provincial funding to fund the municipal tax reductions for the Subclass; any tax reductions would need to be borne by other tax classes, whether by other commercial, industrial class, and/or residential class. An optional small business subclass would prompt a tax shift if implemented. This tax shift and the anticipated significant administration costs, coupled with a municipality’s inability to define small business using business features as eligibility criterion, bring about a question that is difficult to untangle in a sense that it is probably inevitable that there will continue to be concerns around unintended consequences and uncertainty around effectiveness of using the Subclass as a tool to provide a tax break for those businesses in need.

2. Efforts in Supporting Businesses in Peel Region

a) Policies and Services

Peel’s small business sector plays an integral role in Peel’s economy and contributes significantly to its economic performance. They provide goods and services to residents as well as employment opportunities for many.

Measures used to influence business competitiveness are broad and are primarily the responsibility of the federal and provincial governments including monetary and fiscal policies, immigration policies, technology and innovation, income tax breaks etc. Despite limited tools available at the municipal level, tools and services have been explored to support our local businesses in Peel. Local municipalities’ economic development

Optional Small Business Subclass Review

offices provide a variety of services to help local businesses grow and prosper. The Regional planning and capital investment framework provide for an adequate supply of designated employment land to accommodate growth as well as sustainable infrastructure and services to support a diverse and growing economy in Peel.

We continue to strive for principle-based tax policies and advocacy efforts to support Council priorities and the local business community. Municipalities have been asking the Province to provide more support to businesses. The Province announced through the 2020 Budget that it will level the playing field by lowering high Business Education Tax (BET) rates for over 200,000 employers, or 94 per cent of all business properties in Ontario. Subsequently, the Province reduced the 2021 BET rates to a single province-wide rate of 0.88 per cent for commercial and industrial properties (i.e. with some exclusions). In Peel, the reduction of BET rates resulted in a tax rate decrease by 7 to 17 per cent. The reduced BET rates continue to provide property tax relief to commercial and industrial properties in Peel.

Tax ratios reflect how a tax rate for a particular property class compares to the residential tax rate. The different relative tax burdens among property classes are based on the tax ratios set by municipalities. While the tax ratios comparison doesn't necessarily directly lead to conclusive assessment on tax affordability or service levels in a municipality, the information gleaned from the comparison in the Table 5 below illustrates that the three local municipalities in Peel Region have very competitive tax ratios for both the commercial and industrial property classes.

Table 5 - 2021 Municipal Tax Ratio Comparison

	Commercial	Industrial
Mississauga	1.5170	1.6150
Brampton	1.2971	1.4700
Caledon	1.3475	1.5910
York Region	1.3321	1.6432
Halton Region	1.4565	2.0907
Durham Region	1.4500	2.0235
Niagara Region	1.7349	2.6300
Waterloo Region	1.9500	1.9500
City of Toronto *	2.6400	2.6233
City of Ottawa**	1.8520	2.4179
City of Hamilton***	1.9800	3.2493
Average	1.7143	2.1350

*Notes: Ratios in table have been rounded to four decimal places; *Toronto's ratios stated before graduated tax rates; **Ottawa has special classes; the broad class ratios are shown; ***Hamilton has a Large Industrial class with ratio of 3.8102.*

b) COVID-19 Relief Measures

The important role played by businesses in Peel's economy was highlighted during the COVID-19 induced economic downturn, when the significant impact on small businesses resulted in broader economic impacts, such as record high unemployment rates in Peel. During the pandemic, government supports to impacted businesses were put in place by different levels of government, which helped to cushion the impacts of COVID-19.

Measures were put in place in Peel which include the following:

- Local shopping campaigns, which were initiated in all three municipalities – encouraging residents to support local businesses. (Love Local Campaign in Caledon; Buy Local in Mississauga, Support Local in Brampton);

Optional Small Business Subclass Review

- Support for local businesses in transitioning to online services and in the case of agricultural products, support for changes to the packaging of their products for sale in the changed (COVID-19) environment;
- Guidance on how to access government supports;
- Property tax deferrals that were put in place across the Region; and
- Partial relief was provided for business licensing fees.

Although the Subclass was introduced in the middle of the COVID-19 Pandemic, it was not meant as a temporary tax relief program relating to the COVID-19 pandemic. If the subclass were adopted and its associated program infrastructure were established, they would be anticipated to be in place over the long-term. Studies into the effectiveness of property tax reduction in changing market behavior have been inconclusive. Anecdotal analysis suggests that any intervention should be done by recognizing the importance of the market and should give sufficient regard to equity. It remains uncertain as to what the employment landscape will look like in Peel post-COVID; given businesses' sensitivity to changes in the economic realm and to the Subclass causing tax shift amongst them, there are merits to allow more time to give careful contemplation on the appropriateness of adopting the Subclass in Peel.

PROPOSED DIRECTION

The small business subclass, as staff understand it, was introduced by the Province primarily in response to ongoing advocacy by some municipalities to address their small businesses taxation concerns. The City of Toronto has long advocated for a small business tax class that could allow property tax reductions for eligible small businesses, especially for those commercial properties who experienced elevated current value assessment due to intensification and urbanization in certain areas. To that end, the Subclass is a welcome measure enabling municipalities to utilize the tool to achieve certain public policy objectives when appropriate.

As of the time of writing of this report, Staff have learned from discussions through various forums that:

- City staff at Ottawa and Toronto are each bringing forward a report to their Council for consideration on a potential Subclass adoption framework this fall.
- No other municipality has decided to move forward with the Subclass adoption; notably the Councils of Bruce County and the City of London endorsed staff recommendations to not implement the Subclass for the time being primarily due to concerns related to tax shift.

The analyses conducted thus far suggests that there are critical concerns regarding implementing the Subclass in Peel Region. Staff is not recommending implementing the small business subclass at this time considering that any property tax reduction must be carefully thought out to avoid unpalatable tax shifts. This approach is considered as fair, prudent and would be the most administratively efficient.

Should Council wish to move forward with implementing the Subclass, Council can direct staff to initiate a public consultation process to engage for broad public input on various implementation options to help identify a viable approach for implementation. As stated in the regulations, in a two-tiered municipality such as Peel Region, the Council of an upper-tier municipality must pass a by-law if the municipality opts to adopt the Subclass. The MPAC deadline to have property tax roll changes made in time for the 2022 tax roll update is October 4, 2021. Given the time

Optional Small Business Subclass Review

required to complete consultation and requirements for implementation, the earliest potential implementation would be 2023. The Region, in consultation with its local municipalities, would need to determine parameters such as the following:

- the definition/eligibility requirement for the properties that would be included in this subclass
- whether to have the Subclass, if implemented, applied to a portion of Peel Region or to the entire Region
- the rate reduction for the Subclass; the prescribed range is between 0 and 35%, inclusive
- the most appropriate way to fund the program
- the appointment of a Program Administrator(s) and Appellate Authority

*Authored By: Maggie Wang, CPA, CGA, AIMA, MIAM, PLE, Manager Financial Policy & Development Finance
Yvonne Wojcik, Acting Supervisor, Financial Policy & Development Finance*