
REPORT TITLE: Changes to Optional Small-Scale On-Farm Business Subclass in the Commercial and Industrial Property Classes

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

RECOMMENDATION

That in accordance with the provisions of Ontario Regulation 282/98 made under the *Assessment Act*, R.S.O 1990, as amended (hereinafter referred to as O. Reg. 282/98), Peel Region adopt the second optional small-scale on-farm business subclass in the industrial property class and the second optional small-scale on-farm business subclass in the commercial property class, within the Region;

And further, that the necessary by-law to adopt the second optional small-scale on-farm business subclass within the industrial property class and the second optional small-scale on-farm business subclass within the commercial property class, be presented for enactment.

REPORT HIGHLIGHTS

- In 2018, the Province introduced an optional subclass for small-scale on-farm business in the commercial and industrial property classes to promote and support local farms across Ontario.
- On February 27, 2020, the Region of Peel, as an upper-tier municipality, passed By-law 14-2020 to adopt the optional small-scale on-farm business subclass in the industrial and commercial property classes within Peel.
- In December 2021, the Province amended O. Reg. 282/98 to establish a second optional subclass for both the industrial and commercial property classes that provided further support to small-scale on-farm businesses.
- The second subclass allows municipalities to increase the threshold of eligible assessment to which reduced tax rate applies from \$50,000 to a maximum of \$100,000.
- The first \$100,000 of assessed value attributed to the industrial or commercial operation will qualify for a tax rate that is 75 per cent lower than the commercial and industrial tax rates that would otherwise apply.
- The Municipal Property Assessment Corporation has identified one property in Peel (located in the Town of Caledon) to which the second commercial small-scale on farm business subclass will apply.
- If the second optional subclass is adopted for the 2022 taxation year, it will have a minimal municipal tax loss (estimated at less than \$300 for the Region/Town). In the years following 2022, it will have no net financial implications for the Region as the changes will be accounted for within the regular property tax calculation.
- Regional and local municipal tax staff recommend that Regional Council adopt the second optional small-scale on-farm business subclass in both the industrial and commercial property classes to further support local farms in Peel.

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DISCUSSION

Background

On May 3, 2018, the Province introduced an optional subclass for small-scale on-farm business in the commercial and industrial property classes to promote and support local farms across Ontario. The intent of this initiative was to provide sustainable property tax treatment to farmers who diversify their operations by engaging in small-scale processing or retail activities as a direct extension of their farming business. The new subclass was optional for the 2018 tax year and subsequent taxation years and subject to the following requirement/criteria:

- The industrial and/or commercial facility must be an extension to the farming operation;
- 51 per cent of the industrial and/or commercial facility must be used to sell, process or manufacture something from a farm product produced on the farmland or on land used to operate the farming business;
- The first \$50,000 of assessed value attributed to the industrial and/or commercial operation will qualify for a tax rate that is 75 per cent lower than the industrial and commercial tax rates that would otherwise apply;
- If the industrial and/or commercial operation has an assessed value equal to or greater than \$1 million, it will not qualify;
- A council of a single or upper-tier municipality may pass a by-law opting to have the subclass apply; and
- The commercial property subclass is only available if the municipality has passed a by-law for the industrial property subclass.

On February 27, 2020, the Region of Peel, as an upper-tier municipality, passed By-law 14-2020 to adopt the optional small-scale on-farm business subclass in the industrial and commercial property class within Peel.

In December 2021, the Province has passed O. Reg. 828/21 that revoked O. Reg. 282/98 under the *Assessment Act*, R.S.O. 1990, to establish a second optional subclass for both the industrial and commercial property classes that provided further support to small-scale on-farm businesses. The second subclass is in effect for 2022 taxation and subsequent taxation years. The second subclass allow municipalities to increase the threshold of eligible assessment to which reduced tax rate applies from \$50,000 to a maximum of \$100,000. The first \$100,000 of assessed value attributed to the industrial or commercial operation will qualify for a tax rate that is 75 per cent lower than the industrial and commercial tax rates that would otherwise apply.

Starting in March 2022, the Municipal Property Assessment Corporation (MPAC) will review, identify and update eligible properties by providing Special Amended Notices to affected property owners. It must be emphasized that MPAC will identify eligible properties even in municipalities that have not passed a by-law adopting the subclasses, as the Province indicated they will apply a reduced business education tax rate to this increased \$100,000 threshold, irrespective of municipalities opting into the subclasses.

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FINANCIAL IMPLICATIONS

MPAC has identified one property in Peel which is in the second commercial small-scale on-farm business subclass. This property is located in the Town of Caledon. Currently, there are no properties assessed in the small scale on-farm business subclasses in the Cities of Brampton and Mississauga.

If the second optional subclass is adopted for the 2022 taxation year, it will have a minimal municipal tax loss (estimated at less than \$300 for the Region/Town) as the related property was not included on the 2022 tax roll and hence not incorporated in the regular property tax calculation.

In the following tax years, the second optional subclass will have no net financial implications for the Region as the changes will be accounted for within the regular property tax calculation. The adoption of the second optional subclass will result in shifts in the municipal property taxes away from the small scale on-farm business property in the commercial property class and onto other property classes (i.e. primarily the residential property class, as this class makes up the vast majority of the property tax base). The estimated shift amount from the small scale on-farm business property and onto other property classes (primarily residential) is under \$300 (estimated based on the 2022 tax information).

CONCLUSION

Regional and local municipal tax staff recommend that Regional Council adopt the second optional small-scale on-farm business subclass in both the industrial and commercial property classes for qualifying value-added activities that occur on farms as part of the farming business. The adoption of the second optional subclasses will enhance sustainable property tax treatment to farmers who diversify their operations by engaging in small-scale processing or retail activities as a direct extension of their farming business.

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