
REPORT TITLE: **2022 Tax Capping Policy - Selection of Options**

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

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 Chief Financial Officer and Commissioner of Corporate Services, listed on the May 12, 2022 Regional Council agenda titled "2022 Tax Capping Policy - Selection of Options", be presented for enactment;

And further, that the subject by-law remove property in the commercial property classes from capping and clawback of 2022 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, with all properties in these property classes taxed at full Current Value Assessment (CVA) tax in the future taxation years.
- A preliminary analysis shows that using the recommended optional capping tools/enhancements will result in all properties in the commercial capping program being eliminated from the capping program process and taxed at full CVA tax starting with the 2022 taxation year.

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 CVA tax levels.

- The strategy to adopt all applicable optional capping tools/enhancements for the 2022 taxation year will promote a fairer property taxation system.
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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 Current Value Assessment (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 *Municipal Act, 2001*, as amended (*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 five 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.

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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 2022 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 are eliminated from the capping program process and taxed at full CVA tax in the future taxation years. Additionally, the Region of Peel is currently in the third year of its four-year phase-out of the commercial capping program. The Region is not eligible to exit the capping program in 2022 as there remained a capped property in the commercial capping program in the previous taxation year (i.e. 2021).

The use of the following optional capping tools/enhancements is being recommended for 2022:

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 one 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 that all properties in the commercial capping program will be eliminated from the capping program process and taxed at full CVA tax level starting with the 2022 taxation year, as per the following:

	Capped	Clawed Back	At Full CVA
Number of Properties	0	0	15,655
Percentage of Properties	0.0%	0.0%	100.0%
Change from 2021	-0.01%	-0.01%	0.02%

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The final capping calculation for 2022 will be completed later this month (i.e. targeted for May 26th) and will be the subject of a subsequent report. Regional and local municipal Finance staff are in agreement to use all of the recommended optional capping tools and 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 2022 as part of the capping program for properties in the commercial classes to promote a fairer property taxation system.

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