

## **Optional Small Business Property Tax Subclass**

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Recommended by:	General Manager of Corporate Services

## **Report Summary**

This report provides a recommendation regarding the proposed optional small business property tax subclass announced in the 2020/2021 Provincial Budget.

## **Resolution**

THAT the City of Greater Sudbury directs staff to undertake the appropriate policy and financial impact analysis and consultations following the release of the regulations by the Province, as outlined in the report entitled "Optional Small Business Property Tax Subclass", from the General Manager of Corporate Services, presented at the City Council meeting on April 27, 2021;

AND THAT the City of Greater Sudbury directs staff to prepare a report with recommendations for 2022 and subsequent taxation years.

## **Relationship to the Strategic Plan / Health Impact Assessment**

This is operational matters.

## **Financial Implications**

There are no financial implications regarding this item.

## **Background**

As part of the 2020/21 Provincial Budget announcement delivered on November 5, 2020, the Province identified a proposed new authority for municipalities to adopt a special tax subclass for small business properties. This subclass would allow reduced tax rates to apply for eligible small business properties. The Budget outlined that:

- The new subclass will be part of the Broad Commercial Tax Class.
- The parameters for determining eligibility will be set at the discretion of each municipality.
- The amount of the reduction and/or minimum/maximum reductions would be set by regulation.
- The Province has indicated that it may provide matching relief in the form of an education tax

reduction.

While the Budget provides for the option for property tax relief for small business, the budget does not fund this relief.

The Province has yet to release the necessary regulation(s). Forthcoming Provincial regulations are expected to set out:

- How a reduced tax rate for small business may be funded (ie: a tax increase spread across all tax classes including residential, or an increase in tax levy limited only to the commercial class and/or other classes)
- Limits on the maximum allowable percentage reduction for the small business property tax subclass
- Restriction or limitations on the eligibility criteria, or requirements for Provincial approval criteria
- Right of appeal and provisions for appeals

Once the regulations have been enacted, Council must elect to adopt the optional small business property tax subclass by by-law and determine the effective date of implementation. The by-law will have to set out the eligibility criteria, the applicable tax rate by setting a percentage reduction from the otherwise applicable commercial rate and the process (if any) to be included in the class including any application/information requirements from owners, due dates, rights of appeal, appellate body and method of appeal.

Prior to establishing the requirements of the by-law, staff require time to hold consultations and determine the financial impacts of the subclass, to understand what businesses may be eligible or the potential benefits to small businesses as well as what the impacts will be for other property owners. This consultation process will provide staff with the ability to review and determine the following:

#### Eligibility

- Eligibility is determined by the Municipality
- Business properties exist in both the broad commercial and industrial property tax classes, and a small business subclass could be established in one or both of these classes.
- How to define a “small business”, there are many options to consider when setting this criteria such as but not limited to:
  - Number of employees
  - Property value
  - Class of business
  - Geographic area (ie: located within an business improvement area)
  - Sale revenue
- Will eligibility be application based or automatic inclusion if the eligibility test is met?
- How to capture these qualifying properties in the assessment roll. Consultation with the Municipal Property Assessment Corporation will be required.

#### Tax Shifts

- Lowering the applicable tax rate for a small business subclass shifts the property tax burden onto other properties.

#### Implementation costs

- There could be incremental costs associated with the implementation of the small business subclass, mostly with respect to the tax billing and collections function such as possible system programming requirements, eligibility tested and administration costs.

#### Timing

- Implementation in 2021 is not possible as the necessary regulation has not been filed and there is insufficient time for appropriate policy/financial impact analysis and consultation.
- Once the regulation is available, it will need to be reviewed and analyzed.
- Modeling and assessment of different implementation options will also need to be performed.

## Implementation Objectives

- Short and long term municipal objectives must be considered.
- While there is an immediate need to assist some small businesses with the impacts of the COVID-19 pandemic, creating a new property tax subclass takes time to implement.
- The effect of creating a new property tax subclass will extend beyond the current financial crisis.
- A rushed implementation could potentially create inequities and foster animosity between businesses and residents.
- Properties excluded from the new property tax subclass could be subject to property tax appeals.

## Support Options

The Federal and Provincial Governments have and continue to provide many supports to the business community including:

### Federal

- Canada Emergency Rent Subsidy – provides rent and mortgage subsidies up to 65%
- Canada Emergency Business Account – interest free loan
- Canada Emergency Wage Subsidy

### Provincial

- Ontario Main Street Relief Grant – up to \$1,000 for unanticipated personal protective equipment costs
- COVID-19 Energy Assistance Program for Small Businesses – rebate for energy costs including electricity and natural gas
- Ontario Small Business Support Grant – grants from \$10,000 up to \$20,000 for businesses that have had a decline of at least 20% in revenue. This program was renewed as part of the 2021 Budget released on March 24, 2021 and allows eligible recipients to automatically receive a second payment equal to the first payment they received

## Key Considerations:

### Implementation During 2021

Implementation of the optional small business property tax subclass during 2021 would pose risk and challenges. Staff have concluded that implementation of the optional small business property tax subclass in 2021 is not possible due to the following:

- Provincial regulations that would allow for the adoption of a small business property tax subclass have not yet been enacted, making it impossible to determine financial impacts or possible benefits in 2021.
- The Municipality is currently working through the 2021 budget approval and will be finalizing the 2021 tax policy and setting 2021 tax rates in the coming weeks.
- Without the provincial regulations in place to set how a small business property tax subclass could be funded, City staff are not in a position to assess or quantify budgetary impacts.
- The assessment data provided by the Municipal Property Assessment Corporation (MPAC) for the 2021 taxation year to date does not factor in a small business class.
- Implementation during 2021 taxation year will almost certainly have significant financial implications that are not currently included in the proposed 2021 operating budget. Costs for tax relief could result in potentially significant unfunded and unbudgeted expenditures for 2021.

- It is estimated that a 4-6 month timeline is needed following the passing of the necessary regulations in order to complete the necessary modelling and undertake appropriate consultations with respect to implementation of the optional small business property tax subclass.
- Delays in consultations, decision-making or Council approvals could necessitate changes to the tax billing cycle and instalment due dates. This could carry the risk of other budgetary impacts on taxation revenue.
- A lack of modelling of impacts or a hasty adoption of the small business property tax subclass could see unfairness in application of the tax relief, and could see unintentional benefits conferred on certain businesses at the expense of others.
- Properties that are excluded could be subject to a property tax appeal.
- This option should not be viewed as a short-term COVID-19 impact mitigation tool, but rather as a longer-term policy tool that must fit in well with long-term municipal strategic plans and objectives, and implement it in such a way that avoid unintended consequences.

Staff have researched and determined that this is the approach being taken by a number of municipalities around the Province such as the City of Toronto, the City of London and the Region of Waterloo. This research did reveal that some municipalities are offering other relief programs but that many are proceeding with property tax billing and collection under normal circumstances.

The City of Ottawa and the City of Barrie have taken a more aggressive approach aligned with the principles of the new legislation. Ottawa has proceeded with a program that would permanently lower property tax rates by 10 per cent for an estimated 7800 small businesses starting in 2022. The city would make up the revenue by raising property taxes by 0.68 per cent on large commercial properties such as Walmart and Costco. Barrie did not implement a new tax sub class but did pass a resolution to provide a grant to eligible small businesses equivalent to 25% of property taxes paid in 2020 to a total of \$5000 per business. The eligibility criteria align with the special sub class principles and prioritization criteria. The grants were funded from reserves for 2021 to a maximum of \$800,000.

### **Implementation for 2022 and subsequent taxation years**

Following release and enactment of the Provincial regulation(s), staff will undertake the appropriate policy and financial impact analysis and report back to the Committee with recommendation for the 2022 and subsequent taxation.

Subject to approval by the Committee and once all necessary regulations have been enacted, staff will develop a consultation process that includes Finance, Greater Sudbury Development Corporation, Chamber of Commerce and the business community for prudent and coordinated approach.

### **Summary:**

The direction requested is for staff to take the time necessary to comprehensively review and fully describe the financial and policy impacts after the release of the regulations. Staff will then bring forward recommendations to committee when considering 2022 tax policy.