



Report to: General Committee

Meeting Date: February 16, 2021

SUBJECT: Optional Small Business Subclass Update

PREPARED BY: Shane Manson, Senior Manager, Revenue & Property Tax

RECOMMENDATION:

- 1) That the report entitled Optional Small Business Subclass Update be received; and,
- 2) That staff be authorized and directed to do all things necessary to give effect to this resolution.

PURPOSE:

The purpose of this report is to provide Council with an update on the Optional Small Business Subclass which was announced on November 5, 2020, by the Ontario Finance Minister as part of the 2020 Provincial Budget.

BACKGROUND:

At its meeting held on November 24, 2020, Council received and approved a staff report entitled Property Tax and Stormwater Fee Payment Deferral Program. This report also provided Council with a summary of financial relief measures announced by the Ontario Finance Minister as part of the 2020 Provincial Budget.

One of these relief measures included providing municipalities with the authority to adopt a new optional property subclass for small business properties. The new optional subclass would enable municipalities to target tax relief by reducing property taxes to eligible small business properties as defined by the municipality. The Province also indicated that they will consider matching these municipal property tax reductions to support small businesses.

The staff report advised Council that the legislative authority in establishing tax policies rests with the single-tier / upper-tier municipal Councils. For Markham, Regional Council would have to approve the adoption of optional property subclass for small business properties which would include the feedback received from staff of the lower-tier municipalities.

On November 24, 2020, Markham Council resolved and directed staff to report back with further information from the Region on the impact of a new optional property subclass for small business by end of January 2021.

OPTIONS/ DISCUSSION:

While the new optional property sub class would give municipalities the ability to provide a tax rate reduction for small business as defined by the municipality, adopting this subclass would benefit small business but would create a shift in tax burden to the other property classes.

The establishment of the optional subclass must be enacted through an amendment to the Assessment and regulations by the Provincial government. The amendment to the Assessment Act was passed in late December, however the regulations have yet to be enacted. City staff have followed up with the Province on when they anticipate this will occur, however they are unable to provide a timeline which may be due to the recent changes at the Ministry of Finance.

At its meeting held on January 28th, 2021 York Region Council received a memorandum entitled COVID-19 Property Tax Relief Measures for Businesses (attachment 1) from the Regional Treasurer summarizing the property tax relief measures announced through the 2020 Provincial Budget, including optional property sub class for small business. The memo advised Regional Council that in order for the subclass to be effective for the 2021 taxation year, the Provincial regulation would need to be enacted and that a Regional Council decision would need to be made to establish the subclass prior to the adoption of the Region's tax ratios and rates once the 2021 Budget is approved.

Both City Staff and Regional Staff will continue to monitor the provincial regulations on this matter and will report back with further information and recommendations pertaining to the new Optional Small Business Subclass once the Province has finalized the necessary regulations.

FINANCIAL CONSIDERATIONS

Not applicable.

HUMAN RESOURCES CONSIDERATIONS

Not applicable.

ALIGNMENT WITH STRATEGIC PRIORITIES:

Not applicable.

BUSINESS UNITS CONSULTED AND AFFECTED:

Not applicable.

RECOMMENDED BY:**X**

Joel Lustig
Treasurer

X

Trinela Cane
Commissioner, Corporate Services

ATTACHMENTS:

COVID-19 Property Tax Relief Measures for Businesses Memorandum

Attachment 1: COVID-19 Property Tax Relief Measures for Businesses Memorandum



Office of the Commissioner
Finance Department

MEMORANDUM

To: Regional Chair Emmerson and Members of Regional Council

From: Laura Mirabella, FCPA, FCA
Commissioner of Finance and Regional Treasurer

Date: December 11, 2020

Re: COVID-19 Property Tax Relief Measures for Businesses

On November 5, 2020, the Ontario Finance Minister delivered the Ontario's 2020 Provincial Budget. The Budget included several property tax relief measures to help mitigate the financial pressure on small businesses brought on by the Covid-19 pandemic.

Municipalities will now be able to establish an Optional Small Business Subclass

The Province announced that it would amend the Assessment Act to allow municipalities to reduce the property taxes for eligible small businesses through the establishment of a new "optional" small business subclass, beginning with the 2021 taxation year.

The Province has also indicated that it would consider matching any municipal reduction offered with additional education tax reductions beyond those already announced.

The Municipal Act only permits new subclasses to be established by single and upper-tier municipalities. It will be up to the municipality to define the eligibility criteria for the class, as well as the amount of discount being offered in a way that best meets its local needs and priorities.

As of mid-2019, there were about 54,000 business establishments in York Region. It is unknown how many of those operate directly from owned business class properties. Should the Region wish to create a small business sub-class, it would need to develop a definition of "small business" that is tied to property ownership and the property assessment system, and develop a list of properties within the subclass to provide to the Municipal Property Assessment Corporation and the Province accordingly.

As with other optional subclasses, any reductions provided to a subclass would need to be funded through higher property tax rates for other property classes.

The establishment of the optional subclass must be enabled through a new regulation under the Assessment Act. To date that has not occurred.

The Province is also providing other tax reliefs to aid businesses. The provision of a small business tax discount may reduce the amount of other reliefs that would also be available to a business from the Province directly.

Staff will be working collaboratively with Planning and Economic Development to develop potential criteria for a small business definition and to identify properties that have been most negatively impacted by the pandemic.

York Region's business class property tax ratios and rates are currently among the lowest in the GTA.

Business Education Tax will be reduced starting in 2021

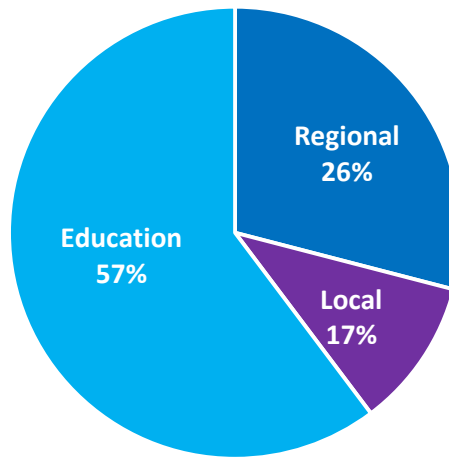
The Province also announced it will be lowering the commercial and industrial education property tax rates to 0.88% for both commercial and industrial properties. This will result in savings of approximately \$450 million to businesses across the Province and represent up to 30% of the education taxes they pay in some municipalities.

A significant portion of property taxes paid by businesses are sent to the province for education (Chart 1). A reduction in education taxes could be a very effective means of assisting businesses.

While the residential education tax rate has been uniform across the Province for many years, the education tax rates for commercial and industrial classes have varied significantly between municipalities.

In York Region, the business education tax rates are 0.897% for commercial properties and 0.980% for industrial properties. As such, the proposed reduction will not benefit York Region business taxpayers as much as in some other municipalities where the rates are currently as high as 1.33%. For York Region, the Province's action represents a 2% cut in the commercial education tax rate and a 10% cut of industrial education tax rate, with a total annual savings to business of approximately \$12.4 million.

Chart 1: Property Tax Breakdown
Commercial/Industrial Property in York Region



This relief measure does not require any municipal participation to be implemented. However, as noted above, if the Region creates a small business subclass, the Province may consider further reductions to education taxes to match the level of “discount” provided to small businesses.

Ontario Property Tax and Energy Cost Rebate Program is offered to certain businesses affected in “control” “lockdown” areas

The Province also introduced, as part of the Budget, a new Ontario Property Tax and Rebate and Energy Costs Rebate Program, which will make available up to \$300 million to businesses that are required to close or significantly restrict services in areas subject to modified Stage 2 public health restrictions or, in areas categorized as “Control” or “Lockdown.” The Province has since increased this support to \$600 million. Businesses will be eligible to receive a rebate of their property taxes and energy costs for the period in which they were under restrictions. The property tax rebate will be provided by the Province to cover all three components of the property tax bill (Regional, Local, Education), net of any proceeds received under the federally funded Canada Emergency Rent Subsidy.

This property tax relief measure also does not require municipal participation to be implemented.

Staff are continuing to monitor the provincial regulations on these matters and will report back with recommendations pertaining to the new Optional Small Business Class once the Province has finalized the necessary regulations.

The adoption of any new subclass will impact the property tax ratios and rates for the remaining properties in the Region. Therefore, in order to be effective for the 2021 taxation year, a decision would need to be made to establish the subclass prior to the adoption of the Region’s tax ratios and rates once the 2021 Budget is approved.

Laura Mirabella
Commissioner of Finance

Bruce Macgregor
Chief Administrative Officer

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