



Report to: General Committee

Date: February 20<sup>th</sup>, 2018

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SUBJECT: Municipal Accommodation Tax (MAT)

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

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**RECOMMENDATIONS:**

- 1) THAT the report “Municipal Accommodation Tax” be received; and,
- 2) THAT staff be authorized to engage with stakeholders and the hotel industry regarding the potential of a 4% Municipal Accommodation Tax (MAT) in the City of Markham; and,
- 3) THAT the City’s portion of the Municipal Accommodation Tax (MAT) revenue be directed towards the Life Cycle Replacement and Capital Reserve Fund as a funding source to support the replacement and rehabilitation requirements of the City’s tourism-related infrastructure; and,
- 4) THAT staff be directed to develop the business case for the purpose of creating a Municipal Services Corporation (MSC), which will operate as the City of Markham’s New Tourism Organization; and,
- 5) THAT subsequent to the consultation with stakeholders, staff report back to Council with further details related to the potential implementation of a Municipal Accommodation Tax (MAT) in the City of Markham; and,
- 6) 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:

- 1) Provide Council with information pertaining to the Province’s new Transient Accommodations Tax legislation (referred to as a Municipal Accommodation Tax); and,
- 2) Provide Council a summary of MAT programs implemented and/or considered in other municipalities; and,
- 3) Request that Council authorize staff to engage with stakeholders and the hotel industry regarding the potential of a 4% Municipal Accommodation Tax in the City of Markham; and,

**BACKGROUND:**

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In April, 2017 the Province of Ontario passed Bill 127: *Stronger, Healthier Ontario Act* (Budget Measures) 2017, which amended the *Municipal Act* (the “Act”) to provide lower or single tier municipalities in Ontario with the authority to levy a transient accommodations tax (referred to in this report as a Municipal Accommodation Tax “MAT”). Bill 127 received Third Reading and Royal Assent on May 17, 2017.

On November 23, 2017, the Province of Ontario enacted Ontario regulation 435/17 (the “regulation”) which came into force December 1, 2017. The regulation prescribes the necessary provisions for municipalities to implement a Municipal Accommodation Tax for transient accommodations through a bylaw and set a tax rate for accommodations of 29 consecutive nights or less.

The regulation prescribes the revenue sharing rules for the following two scenarios;

1. Municipalities with an existing Destination Marketing Fee (DMF)

- *Examples: City of Toronto, City of Mississauga, City of Ottawa and the City of Niagara Falls*
- Municipalities with an existing Destination Marketing Fee (DMF) program in place are required to share the hotel tax revenue with the appropriate non-profit tourism organization in an amount that matches the total revenue generated by the existing (DMF) program

2. Municipalities without an existing Destination Marketing Fee (DMF)

- *Example: City of Markham*
- Municipalities without a DMF program like the City of Markham would be required to share at least 50% of the Municipal Accommodation Tax revenue, net of costs of collecting and administering the tax, with one or more “eligible tourism organizations”. An “eligible tourism organization” is a non-profit entity whose mandate includes the promotion of tourism in Ontario or in a municipality. Any eligible tourism organization that is being provided revenue from the tax must use the funds for the exclusive purpose of promoting tourism.
- The remaining funds collected (50%) have no restrictions; however, it may be important for stakeholders to see these funds benefiting tourism-related initiatives and/or infrastructure projects supporting tourism.

The Act requires a local municipality to include the following within the respective MAT by-law:

1. The name of the tax to be imposed
2. The rate of the tax to be imposed
3. The manner in which the tax is to be collected, including the designation of any persons or entities who are authorized to collect the tax as agents for the municipality and any collection obligations of persons or entities who are required to collect the tax

4. Failing to comply with the by-law;
  - a. interest on the outstanding amount;
  - b. assessment of outstanding tax, penalties or interest;
  - c. audit and inspection powers;
  - d. the establishment and use of dispute resolution mechanisms
5. The regulation also provides exemptions for properties owned by the Crown, Universities, Colleges, Post-Secondary Schools, Hospitals, Long-term Care Homes, and other exemptions, as approved by Council
6. In addition, the regulation allows the municipality to enter into agreements with entities to collect the tax, acting as agents for the municipality, and prescribes a revenue sharing formula where proceeds are shared with the eligible local tourism organization.

#### **OPTIONS/ DISCUSSION:**

Currently, several other Ontario municipalities with large tourism sectors are considering a 4% tax, including Toronto, Mississauga, Ottawa, and Niagara Falls. Below is a summary of the programs being implemented / developed in other jurisdictions;

##### *City of Toronto MAT*

- The City of Toronto had a voluntary Destination Marketing Fee (DMF) of 3% in which the majority of Toronto hotels participated.
- The Greater Toronto Hotel Association (GTHA) administered the 3% DMF fee on behalf of Tourism Toronto which is the local non-profit tourism organization for the City of Toronto
- On January 24<sup>th</sup>, 2018, Toronto City Council approved the 4% Municipal Accommodation Tax ("MAT") for both hotel accommodations ("MAT-Hotel"), and on short-term rentals ("MAT-STR")
- The MAT will commence with the following effective dates;
  - Hotels – April 1<sup>st</sup>, 2018
  - Short-Term Rentals – expected to be on or after June 1<sup>st</sup>, 2018
- The Greater Toronto Hotel Association (GTHA) will continue to administer (collect and remit) the MAT-Hotels on the City of Toronto's behalf
- All costs for collection and administration of the tax will be funded from the tax proceeds. The net revenue estimate for MAT, after sharing with Tourism Toronto in accordance with the provincial regulation, is estimated to be from \$17.2 million

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to \$28.2 million annually, and \$14.6 million to \$23.0 million in 2018 if the MAT-Hotel is implemented on April 1, 2018, and the MAT-STR is implemented on June 1, 2018.

- Toronto staff are also seeking to enter into agreements for the collection of the Municipal Accommodation Tax outside the GTHA membership with short-term housing providers like Airbnb. Discussions have commenced with short-term housing providers

#### City of Mississauga MAT

- The City of Mississauga had a voluntary Destination Marketing Fee (DMF) of 3% in which only two hotels participated
- The Greater Toronto Hotel Association (GTHA) administered the 3% DMF fee on behalf of Tourism Toronto which is the City of Mississauga's current local non-profit tourism organization
- On November 1<sup>st</sup>, 2017, Mississauga City Council endorsed a 4% Municipal Accommodation Tax and directed staff to report back with an implementation plan that would be effective July 1<sup>st</sup>, 2018
- On February 7<sup>th</sup>, 2018, City staff reported to Council with details related to the implementation and administration of the MAT which will commence on April 1<sup>st</sup>, 2018
- The staff report stated that a 4% MAT will generate approximately \$9.8 million in revenue annually
- The Staff report stated that the Greater Toronto Hotel Association (GTHA) without consultation or notice, terminated the collection of the DMF from the Mississauga hotels, which will result in a substantial difference in the amount of MAT revenue that is required to be shared with Tourism Toronto
- As a result of the termination, and under the current regulation, the City will be required to remit 50% of the MAT revenue, which is estimated to be \$4.9M, to Tourism Toronto. If the DMF had remained in place, the staff report indicates that the City would only be required to remit approximately \$500K annually.
- The staff report identified three actions to address the effect of cancellation of Mississauga's DMF:
  1. That the Province be petitioned to provide a Mississauga-specific regulation
  2. That payment be withheld from Tourism Toronto until such time as an agreement is established on the use of funds

3. That the option to create a separate Mississauga Tourism Entity be investigated, as an alternative to partnering with Tourism Toronto
- City staff recommended a simplified remittance model, a method that is currently being used by businesses to remit GST/HST to the Canada Revenue Agency
  - Mississauga staff are also seeking to enter into agreements for the collection of the Municipal Accommodation Tax outside the GTHA membership with short-term housing providers like Airbnb. Discussions have commenced with short-term housing providers

#### City of Ottawa MAT

- The City of Ottawa had a voluntary Destination Marketing Fee (DMF) of 3%. Approximately 50% of the hotels in Ottawa participated in the program, which represents 90% of the total hotel room stock.
- The Ottawa Gatineau Hotel Association (OGHA) administered the 3% DMF fee on behalf of Ottawa Tourism.
- On November 27<sup>th</sup>, 2017, Ottawa City Council endorsed a 4% Municipal Accommodation Tax, effective January 1<sup>st</sup>, 2018 on both hotel accommodations and on short-term rentals
- The OGHA will continue to administer the MAT on behalf of the City and Ottawa Tourism.
- Ottawa staff are also seeking to enter into agreements for the collection of the Municipal Accommodation Tax outside the OGHA membership with short-term housing providers like Airbnb. Discussions commenced and will continue in 2018 and beyond

#### City of Niagara Falls MAT

- On November 28<sup>th</sup>, 2017, Niagara Falls Council endorsed a 4% hotel tax and directed staff to report back with an implementation plan that would be effective April 1<sup>st</sup>, 2018
- The staff report indicated that a 4% tax rate would generate approximately \$15 million in revenue, of which 50 % would have to be shared with Niagara Falls Tourism (NFT) and/or another organization promoting tourism in Niagara Falls
- The tax will also be applied to short term rentals (Airbnb) and other forms of short-term accommodations

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- City staff will report back to Council in early 2018 on the application of the MAT

### **City of Markham MAT Program**

The City of Markham currently has 13 hotels ranging from 83 to 502 rooms per hotel, for a total of 2,350 hotel rooms. Due to the proximity of Mississauga and Toronto hotels, utilizing a comparable rate of 4% would maintain competitiveness amongst all hotels within the GTA.

With an average hotel occupancy rate of 70 per cent and an average daily rate of \$117 per night and utilizing a similar rate of 4%, a Markham MAT could generate approximately \$2.6 million in revenue annually (\$1.3M City, \$1.3M tourism organization).

### **Opportunity for Destination Markham**

In mid 2017, Economic Development staff initiated a cross-commission project entitled *Destination Markham*. Staff was asked to undertake the Destination Markham project to address a gap in Markham's tourism and destination marketing. The Destination Markham strategy will recommend specific actions and strategies to increase knowledge and awareness of Markham's value proposition(s) for key target audiences resulting in increased interest, participation, and engagement in Markham's destination offerings.

A Municipal Accommodation Tax (MAT) is consistent with the Destination Markham strategy. The MAT could generate needed revenues to deliver the strategy's recommendations without affecting the competitiveness of Markham hotels.

### **MAT Revenue Sharing**

- A. Tourism Organization
- B. City of Markham

The legislation prescribes that at least fifty per cent (50%) of the MAT revenue must be provided to a non-profit entity whose mandate includes the promotion of tourism in Ontario or in a municipality.

### **A. Tourism Organization**

#### **Create a New Markham Tourism Organization**

Section 203 of the *Municipal Act* allows municipalities to establish a Municipal Services Corporation (MSC) for municipal purposes. While the legislation allows for the funding to be provided to a non-profit organization, in Staff's opinion, there is no existing organization that can fully address the City's requirements.

Therefore, Staff recommend that the City create a Municipal Services Corporation whose primary mandate will be the promotion of tourism for Markham.

Once the MSC is established, Council can appoint the Board, and direct that 50% of the MAT revenue be shared with the new Markham Tourism Organization. This option will also provide Council with further oversight and input on how the funds are to be spent.

*Staff will report back to General Committee in May/June with the business case for the purpose of creating a Municipal Services Corporation (MSC), which will operate as the new Markham Tourism Organization, whose mandate will be promoting the City of Markham as a destination.*

## **B. City of Markham**

The remaining funds (50%) collected by the City have no restrictions prescribed by the legislation but again it will be important for stakeholders to see these funds benefiting tourism-related initiatives and infrastructure. Staff recommend that the City's portion of the MAT revenue be directed towards the Life Cycle Replacement and Capital Reserve Fund as a funding source to support the replacement and rehabilitation requirements of the City's tourism-related infrastructure.

*Staff will report back to General Committee in May/June with further information related to the City's portion of the MAT revenue*

## **Stakeholder Engagement**

During the month of March, staff propose to consult with stakeholders and the hotel industry regarding the potential of a 4% Municipal Accommodation Tax (MAT) in the City. The consultations will provide stakeholders with an overview of the MAT, administration process, use of the funds, and provide an opportunity for input from stakeholders.

Staff are proposing to engage with the representatives of the thirteen (13) hotels individually. In addition, staff will hold a stakeholder engagement meeting at the Civic Centre to provide an opportunity for stakeholders to learn more about the staff recommended tourism organization whose mandate will be promoting the City of Markham as a destination. The meeting will be advertised in the Markham Economist & Sun and Thornhill Liberal, Social Media ads and on the City Website and EIB's.

*Staff will report back to General Committee in May/June with further information and feedback received from the stakeholder consultation process noted above.*

## **Administration / Implementation**

City Staff are investigating options which could be utilized to administer the MAT similar to the remittance model that is used by businesses to remit GST/HST to the Canada Revenue Agency. Hotels would complete a Municipal Accommodation Tax (MAT) Return and remit it to the City on a monthly basis. Staff would follow up where returns are not remitted and perform regular audits of remittances to ensure accuracy.

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*Subsequent to the consultation, Staff will report back General Committee in May/June with further information related to the potential implementation of a MAT in Markham.*

### **FINANCIAL CONSIDERATIONS**

With the proximity of Mississauga and Toronto hotels, utilizing a comparable 4% MAT on Markham hotels would generate approximately \$2.6 million in revenue annually (\$1.3M City, \$1.3M tourism organization).

The City will share 50% of the MAT revenue with the staff recommended Markham Tourism Organization, who would use the funds to promote tourism in the City of Markham.

The remaining funds (50%) collected by the City have no restrictions and Staff recommend that this portion of the the MAT revenue be directed towards the Life Cycle Replacement and Capital Reserve Fund as a funding source to support the replacement and rehabilitation requirements of the City's tourism-related infrastructure.

### **HUMAN RESOURCES CONSIDERATIONS**

None

### **ALIGNMENT WITH STRATEGIC PRIORITIES:**

Engaged, Diverse and Thriving City  
Stewardship of Money and Resources

### **BUSINESS UNITS CONSULTED AND AFFECTED:**

Legal Services Department  
Culture and Economic Development Department  
Legislative Services and Communications Department



**RECOMMENDED:**

2018-02-15

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Joel Lustig  
Treasurer  
Signed by: cxa

2018-02-15

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Christina Kakaflikas  
Acting Director of Economic Growth, Culture & E...  
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2018-02-15

X 

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Trinela Cane  
Commissioner, Corporate Services  
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2018-02-15

X 

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