



City of
Peterborough

To: **Members of the General Committee**

From: **Richard Freymond**
Commissioner of Corporate and Legislative Services

Meeting Date: **April 12, 2021**

Subject: **Report CLSFS21-012**
Optional Small Business Tax Class

Purpose

A report to provide Council with information relating to the Optional Small Business Tax Class.

Recommendation

That Council approve the recommendation outlined in report CLSFS21-012 dated April 12, 2021, of the Commissioner of Corporate and Legislative Services, as follows:

That information about the Optional Small Business Tax Class, in Report CLSFS21-012, dated April 12, 2021 of the Commissioner of Corporate and Legislative Services, be received for information.

Budget and Financial Implications

There are no budget and financial implications as a result of Council approving the recommendation of this Report.

If Council were to direct staff to implement the Optional Small Business Tax Class, the budget and financial implications would be dependant upon which properties were determined to be eligible to include in the Optional Tax Class as well as the amount of the tax rate reduction.

Unless the overall net tax levy requirement was reduced by an equivalent amount elsewhere in the budget, the resulting shift in tax burden would put upwards tax pressure on other tax classes, such as the Residential Tax Class.

Background

On November 5, 2020 the Province of Ontario announced details of measures to provide tax relief to businesses province-wide, by allowing municipalities to provide tax relief to small businesses affected by COVID-19. Municipalities were given the option to introduce a Small Business Property Subclass, with a reduced tax rate, with eligibility criteria to be established by the municipality. Municipalities can also apply to have the Province match the municipal tax rate reduction with a corresponding education tax rate reduction.

At its meeting of December 14, 2020, when considering approval of the City's 2021 Operating Budget, Council directed:

That staff provide a report on the implications of the provincial announcement to provide an education tax break for businesses.

This Report responds to Council's request.

The Province has left it to municipalities to make decisions related to the possible tax rate reduction for the Optional Small Business Tax Class. This includes the definition of which properties would be eligible for a lowered tax rate as well as the amount of the tax rate reduction. Determining eligibility could be difficult, as property assessment and tax data from the Municipal Property Assessment Corporation does not support an effective or objective assessment of whether a business is large or small. Determination of what qualifies as a small business would need to be made based on a number of possible criteria. A small business could be determined by the number of employees, the square footage of the structure, or an income limit. Several other factors could also be reviewed when setting eligibility criteria, such as whether the tax rate would apply to only owner-occupied properties or if it would also apply to properties where the tenant is deemed to be a small business. The optional tax class could apply to only certain property types or properties below a set assessed value.

Determination of which businesses are to be included in the small business tax class would require an examination of all business properties or could be administered through an application process. Depending on the eligibility criteria and how a small business is defined by the municipality, staff would be required to review financial information for each business and make a determination regarding eligibility. The decision would need to be made as to whether this will be a permanent reduction offered or if it is intended just for the duration of the COVID-19 pandemic.

The municipality would also be required to track ownership and property changes to determine continued eligibility. This would include the collection of information, evaluation and tracking as tenancies and ownerships change. A listing of eligible properties would need to be provided to MPAC on a yearly basis to ensure that the correct tax class is applied only to eligible properties. Each property would need to be reviewed to ensure that they continue to meet the eligibility criteria. The assessment roll

would need to be reviewed annually to capture any additional small business properties that should be added to the listing of eligible properties.

Providing a lowered tax rate to certain businesses would impact other business classes that do not qualify as a small business, which raises the issue of fairness. Not only does the municipality need to determine which properties to include in the program, it needs to determine which to exclude based on subjective criteria. Providing a lowered tax rate to one class of businesses would also shift the tax burden to the residential taxpayers who have also been affected by COVID-19.

Providing a lowered tax rate to small businesses as determined by the municipality also opens the possibility of an increase in Assessment Review Board appeals for businesses that are not included in the Optional Small Business Tax Class. Eligibility may be challenged for a variety of reasons, which could lead to appeals due to unfairness or inequities. An increase of Municipal Tax Applications under section 357 of the Municipal Act, 2001 can also be anticipated.

A review of other municipalities in the province has shown that there is concern that implementation of a long-term policy shift for what may be a short-term issue could be premature. A number of municipalities feel that the Province of Ontario should be determining the definition and eligibility requirements for inclusion in a Small Business Tax Class and implementing the changes through regulations. Another concern is that the 2021 assessment roll has been provided by MPAC, and that tax rates and budget requirements for the 2021 taxation year have already been set. The Optional Small Business Tax Class would then be effective for the 2022 taxation year, at which time the landscape may be much different regarding COVID-19.

The Province of Ontario is providing assistance directly to small businesses that were required to close or significantly restrict services due to provincial public health measures. Eligible businesses, as determined by the Province of Ontario, can apply for rebates for costs that include property taxes. As part of the 2021 Budget, Council also completed a longstanding goal through the Tax Ratio Reduction Program of achieving a ratio of 1.5 of the Residential tax rate for the Industrial Tax Class. The Commercial Tax Class achieved a ratio of 1.5 in 2020.

Additionally, for the 2021 taxation year the Province announced that the Business Education Tax rates would be reduced to 0.88%. In the City of Peterborough this represents a 29.6% reduction from the 2020 Business Education Tax rate of 1.25%. This reduction represents a reduction of \$370 on an assessed value of \$100,000.

Summary

After consideration of all of the concerns and potential issues as discussed in this Report, staff are recommending that the Report be received for information.

Submitted by,

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Commissioner of Corporate and Legislative Services

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