City of Mississauga
Corporate Report

MISSISSAUGA

Date: March 26, 2021 To: Chair and Members of Budget Committee From: Gary Kent, CPA, CGA, ICD.D, Commissioner of Corporate Services and Chief Financial Officer	Originator's files: Meeting date: April 28, 2021

Subject
Update on Vacant Home Tax and Small Business Sub-class Options

Recommendation
That the report entitled "Update on Vacant Home Tax and Small Business Sub-class Options" dated March 26, 2021 from the Commissioner of Corporate Services and Chief Financial Officer be received for information.

Executive Summary
- The Province of Ontario introduced legislation in 2017 that would empower the City of Toronto to introduce a tax on vacant residential units. The Province also made changes to the *Municipal Act* (the Act) to provide other interested municipalities with the option to introduce a tax on vacant residential units.
- The Minister of Finance must first pass a regulation designating other interested municipalities for this section of the Act to apply. In two-tier governments, it would be the Regional government that would request designation. If a Vacant Home Tax were introduced by a Region it would apply to all local municipalities.
- The City of Toronto has begun the implementation of a Vacant Home Tax. Start up costs are estimated at $11 million, on-going operational costs are estimated at $5 to $7 million. The estimated revenue potential for Toronto is $55 to $60 million annually based on a one percent vacancy rate and a one percent tax.
- The City's Making Room for the Middle: A Housing Strategy for Mississauga noted that Mississauga is limited in its ability to finance affordable housing initiatives on its own. One of the uses of a VHT could be to help fund the actions identified in the Housing Strategy.
- The potential estimated revenue for the City of Mississauga based on a one percent vacancy rate and a one percent tax is $12M to $14M. These assumptions are based on the Vancouver experience and would need to be validated for Mississauga.

- As a Vacant Home Tax would be a Regional program, it is anticipated that the revenue would be shared. If shared based on the percentage share of the total municipal residential levy, Mississauga's portion would be $5M to $6M.
- Toronto's implementation is a three year plan including the design of the tax, applicable by-laws, system development, public awareness and education, anticipating the first homeowner declarations and tax collection in 2023.
- The Region of Peel has established a working group to review the feasibility of a Vacant Home Tax including a public policy benefit study. Regional staff will be reporting back to Regional Council by the end of 2021 on their findings.
- If the Region of Peel does move forward with the implementation of a Vacant Home Tax, the City would require a multi-divisional team to oversee the project including system design and development and an extensive public awareness campaign.
- Optimistically the earliest implementation of a VHT could be achieved is late 2023 for occupancy declarations relating to 2022.
- As part of the 2020 Budget, the Province of Ontario introduced a new optional property tax sub-class for small businesses. This is in response to a long standing request from the City of Toronto to address taxation issues along their Main Streets and within their BIA's and not meant as a temporary tax relief relating to the pandemic.
- Similar to other tax policy options, it would be the Region of Peel that can opt to adopt this new sub-class. If the Region does adopt the sub-class, it would apply to all lower tier municipalities. The Region is studying this option through a working group with potential implementation for 2022.
- Municipalities would be required to define small business and maintain a listing of the properties that would be included in the sub-class.
- Implementation of the Small Business sub-class tax reduction will create a shift in tax burden away from these businesses and onto all other properties including residential properties.
- Revenue from the Vacant Home Tax cannot be used to offset the shift in tax burden to the residential class only. It could be brought in as revenue to lower the overall tax impact to all properties.

Background

Vacant Home Tax (VHT)

In 2017, the Province of Ontario introduced the Ontario Fair Housing Plan and included legislation that would empower the City of Toronto to be able to introduce a tax on vacant residential units. Staff at the City of Toronto have been studying this option since it was introduced and are now undertaking the design and development of this program to enable the implementation of the tax for 2022. Based on their implementation plan, the first homeowner declarations for 2022 occupancy status and the issuing of tax bills would occur in 2023.

Start up costs for Toronto are estimated at $5.0 million for 2021 and $6.0 million for 2022. Annual operating costs are estimated at $5 to $7 million and would include additional staff for tax administration, review and compliance (audit), IT support and maintenance, communications and 311 contact centre. Gross tax revenue based on a one percent tax and assuming a one percent vacancy rate for residential properties is estimated at $55 to $60 million.

The Province also made changes to the *Municipal Act* (the Act) to provide other interested municipalities with the option to introduce a tax on vacant residential units. In order for this Part of the Act to apply to a municipality, the Minister of Finance must first pass a regulation designating the municipality for this Part. In a two-tier municipality, it would be the Regional government that would be designated. A regulation under this section of the Act may be retroactive to January 1 of the year in which the regulation is made. The Region of Peel would then have the ability to pass a by-law to impose a tax on the assessed value of vacant units classed as residential. Once enacted, the by-law would apply to all local municipalities and would be administered locally.

<u>Small Business Sub-class (SBSC)</u>
As part of the 2020 Provincial Budget in November 2020, the Province announced the creation of a new optional property sub-class for small business. Beginning in 2021, municipalities will be able to adopt this new optional property sub-class. As part of adopting the sub-class, the municipality would need to define the properties that would be included as small business. Provincial regulations still to be filed will determine how this new sub-class is implemented.

Similar to other tax policy decisions in a two-tier government, it is the Region of Peel that would adopt the SBSC annually through a Regional by-law. If the Region adopts the new sub-class then the sub-class would apply to all local municipalities within the Region. The Regional by-law would also determine the percentage of reduction that would apply to the sub-class. Local municipalities will be responsible for administering the program including maintaining the list of properties meeting the definition and providing this list to the Municipal Property Assessment Corporation (MPAC) annually for inclusion in the assessment roll.

The SBSC will allow municipalities to target tax relief by reducing property taxes to eligible small business properties. The Province will also consider matching these municipal property tax reductions through a corresponding reduction in education taxes to support small businesses. The introduction of this new sub-class would create a shift in the tax burden away from the small businesses and onto the other properties within the municipality including residential properties.

Comments

VHT

On January 14, 2021, Region of Peel staff presented a report to Regional Council entitled "Property Tax Policy Review". This report included a recommendation to establish a working group comprising of Regional and Local Municipal staff from various departments to commence a stakeholder consultation and to undertake a feasibility and public policy benefit study for potential introduction of an Optional Tax on Vacant Residential Units in Peel Region. Regional staff will report back on the progress of this working group by the end of 2021.

The Region is engaging a consultant through an RFP to review the potential implementation of a VHT. The consultant will facilitate workshops with Regional Stakeholders and Local Partners and prepare a feasibility and public benefit report that will be provided to Regional Council for consideration. The intent is that this report will provide analysis of the current state of the housing market in Peel Region; analyse the benefits of a VHT in improving rental housing supply and/or creating revenues for housing programs and any associated risks; indicate methods to identify and quantify vacant homes and the pros and cons of various approaches; and provide a financial analysis of revenue potential, start up and operating costs. The Region is also looking to develop a public consultation and communication strategy.

Moving forward with a VHT needs to take into account the urgency of need, market conditions that may have already altered the supply of housing, the ability to carry out the necessary administration of the program and the public relations of implementing the tax.

There are a number of challenges with implementing a VHT, including:

- understanding the extent to which vacant homes negatively affect the supply of affordable housing;
- determining if a tax on vacant units would encourage property owners to sell or rent out their property;
- how to measure the effectiveness of a tax on vacant residential units in increasing the supply of housing and impact, if any, on affordable rents;
- identifying and addressing privacy related restrictions on the use of 'big data' which otherwise could be used to help identify vacant units;
- determining the best methodology for identifying vacant units;
- quantifying the expected revenue and administrative costs related to the tax;
- developing the necessary technical infrastructure to administer the tax;
- determining the intended use of the additional revenue;
- determining the dispute resolution system; and
- determining if the revenue would remain local or be shared with the Region.

If the VHT is implemented by the Region of Peel it would require the development of a new module within TXM and depending on the intake methodology potentially a new portal intake process. There will also need to be a significant communication / public education campaign required as part of the implementation. A cross divisional team would need to be established for the implementation including at minimum Revenue, Finance, Communications, IT and Legal Services. Ongoing operational costs and additional staffing would be required for several Divisions impacted including but not limited to tax administration, communications and IT. Similar to the implementation of the Municipal Accommodation Tax (MAT), operational costs would be funded from the VHT.

Also similar to MAT, the use of the VHT revenue would be determined annually through the City's budget process. The legislated methodology for setting property tax rates does not permit the use of alternative revenue sources to impact any one particular tax class. Any reduction to the property tax levy from alternative revenues benefit all property tax classes.

The following would be the next steps in reviewing the feasibility of a VHT:

- Region execute RFP for consultant
- Region to finalize VHT working group
- Working group to receive and review consultants report
- Working group to determine if VHT will be implemented
- Regional staff to report to Council by end of 2021

If the decision is to implement a VHT, the following steps would be required:

- Region to request the Ministry of Finance to file a regulation allowing the VHT section of the Act to apply to the Region
- Working group to establish the design of the VHT
- Region to establish the applicable by-law(s)
- Local municipalities to develop IT infrastructure, potentially requiring external resources
- Local municipalities and Region to develop communication and public education campaign
- Local municipalities to establish their administration processes
- Property owners to submit first occupancy declaration
- First billing of taxes by local municipalities

It is unknown how long it would take for the Province to file the necessary regulation. Development of the IT infrastructure is dependent on the design of the VHT program. It is estimated that the development of the necessary IT infrastructure will take approximately 24 months from completion of the design. The public education campaign would be completed at the same time as the infrastructure development. Given the steps required, optimistically the earliest implementation of a VHT could be achieved is late 2023 for occupancy declarations relating to 2022.

The City's Making Room for the Middle: A Housing Strategy for Mississauga aims to foster a supportive environment for housing that is affordable for all. The strategy identified four goals and 40 actions to help address housing issues. The goals include removing barriers, closing the missing middle gap, championing systems reform and being accountable. The strategy noted that Mississauga is limited in its ability to finance affordable housing initiatives on its own. One of the uses of a VHT could be to help fund the actions identified in the Housing Strategy.

Using the same methodology as the City of Toronto to estimate potential revenue, by applying a one percent tax on an estimated one percent of residential properties being vacant and the average residential CVA (including single family detached and condominiums) of 597,000, the potential annual gross revenue for the City of Mississauga is approximately $12M to $14M. If shared with the Region based on the percentage share of the total municipal residential levy, Mississauga’s portion would be $5M to $6M. These assumptions are based on the Vancouver experience and would need to be validated for Mississauga. It should be noted that the current total residential tax rate (City, Region and Education) is approximately 0.8 percent. Administration costs would be funded from this revenue and the net allocated towards the intended use of the funds.

<u>SBSC</u>
While the Province introduced this new optional sub-class in the midst of the COVID 19 pandemic, this is in response to a long standing request from the City of Toronto to address taxation issues along their Main Streets and within their BIA’s. The intent of the use is not as a temporary measure and will extend beyond the current crisis. Similar to other tax policy options, the intent is to provide municipalities with tools to ensure property tax equity.

MPAC has indicated that as it will be a municipal definition for the SBSC, municipalities will be required to maintain a listing of properties that qualify for the program. Municipalities will then need to provide this list annually to MPAC for them to adjust the classification for taxation purposes.

The Region has established a working group to study the feasibility of implementing the SBSC and determining the definition that would be used to identify small businesses. This working group consists of regional and local tax, economic development and planning staff. The working group is meeting regularly and reviewing possible options for determining the definition of small business and the possible impacts based on the various definition options.

At this time the Province has not yet enacted the regulation stating the program requirements and no definitive time line has been given for the filing of this regulation. Until the regulation is released it is difficult to fully determine the implications of adopting the SBSC. The delay in the filing of this regulation also impacts the timeline for implementing the SBSC.

Some of the challenges identified to date are:

- clarifying MPAC's role in identifying and maintaining the listing of properties;
- creating a definition that is fair and equitable and based on property information that is readily available;
- determining how to process in year changes when the identified properties are included in an annual by-law;
- understanding the implications to the assessment appeal process and the role of municipal staff in defending the definition of small business; and
- understanding the implications of the timing of the Region's by-law, MPAC updating the assessment role and calculating final tax rates.

Similar to adjusting tax ratios, implementing the SBSC will create a shift in tax burden as taxes will be reduced for the small businesses included in the sub-class. This reduction will then be re-distributed amongst all other properties. As the residential class is the largest percentage of the City's assessment base, the residential class will absorb the majority of this shift in tax burden.

Some municipalities have indicated to the Province that they would like the ability to fund the reduction from within the business classes only. This would result in a tax increase for large businesses to offset the reduction to small businesses and not impact residential properties. This would only be possible if this funding option is included in the Provincial regulation.

As this would be a regional program, adopting the SBSC will also create a shift in the Region's tax levy apportionment. The actual impacts can only be determined once the provincial regulation has been enacted and the definition of small business properties finalized.

If the SBSC is implemented so that the changes are incorporated into the calculation of the final tax rates then it only affects the distribution of taxes. If the SBSC is implemented after final tax rates have been established then there is the potential for a significant loss in tax revenue for the tax reductions for the small business properties. The Region is currently targeting implementing the SBSC prior to final tax billing in 2022. This will be dependent on the timing of the regulation and MPAC adjusting the tax roll.

Engagement and Consultation

Revenue staff are currently involved in the two working groups established by the Region to study the feasibility of implementing these tax policy options. Economic Development staff are also involved in the SBSC working group.

Once the Region has completed their RFP for a consultant for the VHT, membership of the working group will be finalized including inviting Planning and Building staff to participate.

The implementation of the VHT will require a multi-divisional team to oversee the design and development of this program. This will include collaboration with IT staff both for development of a new module within TXM for the processing of the new tax and Digital Services for the potential development of a portal for intake of taxpayer information. It will also include Legal Services for the development of the by-law and Communications for the public education campaign.

Financial Impact

VHT

Using the same methodology as the City of Toronto, by applying a 1 percent tax on an estimated 1 percent of residential properties being vacant and the average residential CVA (including single family detached and condominiums) of 597,000, the potential annual gross revenue for the City of Mississauga is approximately $12M to $14M. If shared based on the percentage share of the total municipal residential levy, Mississauga's portion would be $5M to $6M. These assumptions are based on the Vancouver experience and would need to be validated for Mississauga. Administration costs would be funded from this revenue and the net allocated towards the intended use of the funds.

SBSC

Implementing the SBSC will result in a reduced tax level for small business properties. Similar to when tax ratios are changed, this will create a shift in tax burden, reducing the burden for small businesses and shifting this burden to all other properties including residential. The actual impacts will depend on the definition of small business and on the percentage of tax reduction. This will also create a shift in the apportionment of the Regional levy amongst the local municipalities.

If the SBSC is implemented so that the changes are incorporated into the calculation of the final tax rates then it only affects the distribution of taxes. If the SBSC is implemented after final tax rates have been established, there would be a significant loss in tax revenue resulting from the tax reductions for the small business properties.

Conclusion

There are still many questions to be answered and actions required by the Province before the Region of Peel would be able to move forward with implementing either of these programs. Once the decision is made, there would be a significant amount of work to implement these initiatives including building the necessary IT infrastructure and executing a significant communication / public education campaign. The Region has established two working groups to review the feasibility of both of these tax policy options and will be engaging a consultant for a public policy benefit study relating to the Vacant Home Tax.

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