

Date: November 10, 2020	Originator's files:
To: Chair and Members of Budget Committee	
From: Gary Kent, CPA, CGA, ICD.D, Commissioner of Corporate Services and Chief Financial Officer	Meeting date: November 23, 2020

Subject

Provincial Budget – Property Tax Impacts

Recommendation

That the report of the Commissioner of Corporate Services and Chief Financial Officer dated November 10, 2020 entitled "Provincial Budget – Property Tax Impacts" be received for information.

Report Highlights

- The 2020 Provincial Budget was presented on November 5, 2020 and included changes relating to property tax and assessment.
- The Business Education Tax (BET) rate for 2021 is being reduced to 0.88%. This is a reduction in property taxes funded by the Provincial Government.
- This will be a saving of \$31.5 million for small businesses in Mississauga.
- We welcome the reduction in taxes to small businesses and the details will be reflected in the 2021 tax bill.
- The reduction to the BET rate will result in a loss of approximately \$900,000 in PILT revenue in 2021 but is not included in the proposed 2021 budget.
- A new optional sub-class can be introduced for small business properties at the discretion of the upper tier. This sub-class allows a municipality to consider shifting some taxes between classes, i.e. from small business to the other property taxes including residential. This will be studied carefully and considered by the Region of Peel when the regulations are received.
- A change to the Assessment Act to exempt Army, Navy and Air Force Veterans clubs is being proposed.

Background

On November 5, 2020 the Provincial Government released their 2020 Provincial Budget. The Budget included several changes relating to property tax and assessment in response to the COVID 19 pandemic impacts to businesses.

The Province will be reducing the Business Education Tax (BET) rates to 0.88% for 2021. Provincial payments to the school boards will be adjusted to offset the reduction in education property taxes.

The Province also introduced a new optional property sub-class for small business properties. Beginning in 2021, upper and single tier municipalities will have the option to adopt a small business sub-class; small business would be defined by the municipality. This new optional sub-class would allow municipalities to target tax relief by reducing property taxes to eligible small business properties. The Province will also consider matching the municipal property tax reductions to support small businesses.

The Budget also included proposed amendments to the *Assessment Act* to apply the existing property tax exemption for Ontario branches of the Royal Canadian Legion, for 2019 and subsequent tax years, to Ontario units of the Army, Navy and Air Force Veterans in Canada.

Comments

Business Education Tax (BET) Rate Reduction

The 2020 and proposed 2021 BET rates for Mississauga are shown in the table below. The 2020 BET rate for industrial properties was higher than the provincial ceiling of 0.98% resulting in this rate being applied to new construction in the industrial class.

Property Class	2020 Education Rates	2021 Education Rates
Commercial	0.944727%	0.88%
Commercial – New Construction	0.944727%	0.88%
Industrial	1.066032%	0.88%
Industrial – New Construction	0.980000%	0.88%

Based on the assessment roll used for determining 2020 taxes, the reduction in business education taxes in Mississauga is approximately \$31.5 million. The individual tax impact is dependent on the assessment value of each property. For a commercial property, the education tax reduction per 100,000 CVA is about \$65. For an industrial property, the education tax reduction per 100,000 CVA is about \$186. Examples are shown below for a property valued at 10,000,000 in each property class noted above.

Property Class	2020 Education Taxes	2021 Education Taxes	Change
Commercial	\$94,473	\$88,000	-\$6,473
Commercial – New Construction	\$94,473	\$88,000	-\$6,473
Industrial	\$106,603	\$88,000	-\$18,603
Industrial – New Construction	\$98,000	\$88,000	-\$10,000

Interim taxes are based on 50 percent of the prior year final taxes. The 2021 BET rates along with municipal budget impacts will be incorporated into the final tax rate calculation for 2021.

The reduction to the BET will impact payment-in-lieu of taxes (PILT) revenue for properties where the City retains the education portion of the calculated PILT. It is estimated that the City's PILT revenue will be reduced by \$500,000 in 2021. The BET reduction will also impact the distribution of the GTAA PILT between the City and the Region of Peel. The distribution is based on the percentage share of the commercial tax rate with the City retaining the education portion. The reduced BET will result in approximately \$400,000 of the GTAA PILT shifting to the Region for 2021.

Optional Small Business Sub-class

The adoption of a new optional small business sub-class is an upper-tier decision and would then apply to all local municipalities. If the new optional sub-class is adopted, the Region would also determine the rate reduction that would be applied to the sub-class from the full tax rate for business properties. This rate reduction would apply to all local municipalities. If this is adopted, it would result in a tax burden shift to all other property classes including residential.

Although the Province is providing this new optional sub-class as a means to alleviate some of the tax burden on small businesses, there are challenges with adopting this new sub-class. Primarily in the defining of "small business" as property assessment and tax data does not support an effective or objective assessment of whether a business is large or small.

Staff will work with Regional staff and tax staff from Brampton and Caledon to analyze the impacts of adopting this new property sub-class for small businesses. Results of this analysis will be included in the Tax Ratios, Rates and Due Dates report to Council in the spring 2021.

Army, Navy and Air Force Veterans Exemption

The proposed change to the *Assessment Act* to provide a tax exemption to the Army, Navy and Air Force Veterans in Canada will provide the same tax treatment for the Army, Navy and Air Force Veterans club as provided to the Royal Canadian Legions in 2019.

Provincial regulations are still pending that will provide additional information and direction on how these changes will be implemented.

Financial Impact

The reduction to the BET rate for 2021 will result in a loss of approximately \$900,000 in PILT revenue.

If the new small business sub-class is adopted, there would be a shift in tax burden to the other property classes resulting in an increase to the residential tax burden.

Conclusion

The Provincial Budget announced changes to the Business Education Tax rates for 2021, reducing the rates to a uniform 0.88% for all properties within the commercial and industrial property classes. Based on the 2020 tax roll this reduction in education tax rates results in a reduction of approximately \$31.5 million in education taxes in Mississauga. The Province will adjust their payments to the school boards to offset this reduction in property taxes. The reduction to the BET rate will result in a loss of approximately \$900,000 in PILT revenue in 2021.

The decision to adopt any optional property sub-class is an upper-tier decision. Staff will work with tax staff from the Region, Brampton and Caledon to analyze the use of this new optional sub-class and include the findings in the Tax Ratios, Rates and Due Dates report to Council in the spring 2021. If adopted, the Province will also consider matching the municipal property tax reductions to support small businesses.

Attachments

N/A



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