REPORT TO THE FINANCE AND CORPORATE SERVICES COMMITTEE
November 16, 2021

TO:	**FINANCE AND CORPORATE SERVICES COMMITTEE**
SUBJECT:	**SMALL BUSINESS PROPERTY TAX SUBCLASS**
WARD:	**ALL**
PREPARED BY AND KEY CONTACT:	**G. MARSH, MANAGER REVENUE AND TAXATION (ACTING), EXT. 5587** **C. SMITH, SENIOR MANAGER, ACCOUNTING AND REVENUE, EXT. 5128**
SUBMITTED BY:	**C. MILLAR, DIRECTOR OF FINANCE AND TREASURER**
GENERAL MANAGER APPROVAL:	**D. MCALPINE, GENERAL MANAGER OF COMMUNITY AND CORPORATE SERVICES**
CHIEF ADMINISTRATIVE OFFICER APPROVAL:	**M. PROWSE, CHIEF ADMINISTRATIVE OFFICER**

RECOMMENDED MOTION

1. That the Report to the Finance and Corporate Services Committee dated November 16, 2021 concerning the Small Business Property Tax Subclass, be received for information purposes.

PURPOSE & BACKGROUND

Report Overview

2. The purpose of this report is to provide Finance and Corporate Services Committee with background information, details, and analysis regarding the implementation of a Small Business Property Tax Subclass (SBTC) in the City of Barrie.

3. On January 25, 2021, City Council adopted motion 21-G-006 regarding the 2021 Business Plan as follows:

   "That staff in the Finance Department prepare a report to the Finance and Corporate Services Committee concerning a plan to implement a small business tax subclass as proposed by the Province of Ontario, including consideration of financial impacts for both the benefiting businesses and all other tax classes."

4. The optional SBTC was announced in the 2020 Ontario budget. Amendments to O. Reg 282/98 under the *Assessment Act, R.S.O. 1990* and O. Reg 73/03 under the *Municipal Act, 2001* were not filed until May 7, 2021. These amendments provided municipalities with the flexibility to target property tax relief to eligible small businesses within the commercial and/or industrial tax classes and provided some of the implementation details.

5. In the weeks immediately following the issuance of the regulations, Finance staff collaborated with various municipal stakeholders to gather information and understand the program impacts, requirements, timing, flexibilities, and limitations. Feedback has been received from the Municipal Property Assessment Corporation (MPAC), the Simcoe County Clerk and Treasurers (SCCT), the Ontario Municipal Tax & Revenue, Association (OMTRA), the Municipal Finance Officers

Association (MFOA), Association of Municipalities in Ontario (AMO), The Ministry of Finance, Ontario BIA Association (OBIAA) as well as multiple single, upper and lower tier municipalities. Internally Finance has collaborated with Economic and Creative Development.

6. As a result of this collaboration, MPAC has published a document titled 'Ontario's Small Business Property Subclass: Considerations for Municipalities, September 2021". This document includes the Ontario Regulations related to the Small Business Subclass, as well as the Province of Ontario's Interpretation Bulletin on the subject. A link to the MPAC document is provided as Appendix "A" and portions of that document have been referenced in this report.

7. There are numerous considerations to be reviewed when thinking about implementing a SBTC including:

   i) **Existing Policy Drivers:** A variety of financial and economic development tools currently exist in the City to nurture small business development and support their survival, such as:

      a) City support of the Small Business Centre which provides tools to start and grow business;

      b) The City facilitates consultations with the business community;

      c) The City provides support for the retention and growth of existing businesses;

      d) The City connects local business to funding opportunities and acts as a concierge service to businesses looking to develop or expand and needing to connect with other City departments; and

      e) The City actively assists businesses with talent attraction and connects businesses to workplace training opportunities.

   ii) A consensus of the various working groups is that if municipalities are considering a small business class it should not viewed as a short-term Covid-19 impact mitigation tool, but rather as a long-term tax policy solution that must fit with long term municipal objectives. The optional property tax subclass is just one tool, and its use must be considered within the broader context of the City's characteristics and policy drivers to arrive at the best combination of tools to address local issues and goals.

   Council's Strategic Objectives and Priorities must be considered. Council should consider how the implementation of a SBTC may possibly deter the attraction of larger businesses with additional local job opportunities when property taxes increase for them as a result of lowering taxes on small business. Depending on the funding options chosen, which are explained in more detail later in the report, the property tax shift can also affect non-business properties such as residential homes, multi-residential buildings with affordable housing, or even farmlands.

   Both the Federal and Provincial governments have initiated an array of support programs to assist businesses and manage the impacts of COVID-19.

   iii) **Target Businesses:** Many small businesses are tenants in larger properties, and any property tax relief will go directly to the property owner. The required by-law can contain a provision that owners must pass any benefit through to the tenant, however the City has no legal authority to enforce this. The only remedy available to the City would be removal of the property from the program; however, if this occurs then there is no benefit to the small business. The diversity of leases which may be in effect between small business and their landlords is likely to cause disputes between them. There may be a gross lease, a modified gross lease, a net lease, a double net lease or a triple net lease all of which may distribute property taxes differently. Multiple lease types are likely to exist even within single properties. There is no way for the City to ensure any tax reduction will actually reach the small business.

iv) **Defining Small Business:** The regulations provide almost no direction on how to define a 'small business' and there was very little consensus within the working groups on how that should be done. Options can include any combination of:

a) Ownership Model – does the decision-making lie with the local owner or is it subject to outside rules. Sole proprietorships, partnerships or incorporated entities may identify as 'independent business' vs small business;

b) Total Revenues – the Canada Revenue Agency (CRA) has a threshold of $500,000 annual income for some federal small business tax deductions for incorporated entities;

c) Number of Employees/Locations – Statistics Canada (Stats Can) has a threshold of fewer than 100 employees and/or a maximum of 3 locations in Canada to meet a small business definition, however number of employees is difficult to interpret when many businesses have part-time or seasonal employees; and

d) Amount of floor space occupied by the business - This can be difficult to rely on because a small office area may be a company with hundreds of remote workers, and conversely a business that requires storage or product to assemble may require more floor space but meet other small business thresholds.

When attempting to assemble the data elements noted above, some are available from the various sources already mentioned, such as MPAC, Stats Can, CRA, and perhaps even within our own business directories; however, the administrative burden of locating the data, and the subjective process of verifying it for eligibility must be considered.

Whether any or all the above attributes are considered or used, an overall strategy must be determined as to which individual properties will be deemed eligible, such as:

a) A geographically targeted approach where the City determines one or more specific areas of the City where the subclass will apply;

b) A valuation targeted approach wherein the City determines that any business property under a certain current value assessment (CVA) threshold may qualify for the subclass; or

c) A combination of both geography and valuation. Examples may be any property under $500,000 CVA within a specific area may be eligible, or any property anywhere in the City under a CVA threshold may apply.

v) **Identifying and Maintaining the Registry -** Municipalities are responsible for developing their own eligibility criteria and determining which properties may qualify for inclusion in the small business sub class. Whatever attributes, in whatever areas under whichever approach is used, the list of properties that are eligible will either be a list created by staff from available and sought information within the City, or an application-based program where businesses will need to apply and be reviewed for eligibility. Regardless of which strategy may be chosen, the design, advertising, implementation, and ongoing maintenance of either program will require additional staff resources.

vi) **Tax Impacts:** Modelling is required to understand the tax impacts that will result by implementing the optional class for any number of eligible properties. The amount of relief can be set anywhere up to 35% of the City taxes only. A detailed cost analysis is presented for various options further in this report.

vii) **Funding the Impacts:** There are three different ways to fund the shortfall of taxes that will result and again the impacts are included in a more detailed analysis below:

a) Shift the taxes to all other property classes, including residential and farm;
b) Shift the taxes only to the non-eligible properties within the same class; or
c) Reduce the budget by the amount of relief, and fund from a source other than increased property taxes

viii) **Consultation:** The regulations require that there must be consultation with all stakeholders or the Province will not mirror the reduction on the education portion of the taxes, thus reducing the benefit considerably. This consultation would be extensive because all affected parties must be included, which depending on the funding impact chosen, could be the entire City. Once the consultation is complete, a municipality can apply for a matching reduction on the education portion; however, the Province is not guaranteeing it will be provided.

ix) **Specific Staffing Requirements:** In addition to increased administration staff noted above, the regulations also require that Council appoint two separate staff persons/positions to act as a Program Administrator and an Appellate Authority. The assignment of these new duties may have implications for current job descriptions and salary levels that may need to be reviewed.

The Program Administrator is responsible to determine which properties meet eligibility under the defined criteria, produce a list of those properties, make the list available for public inspection, and provide the list to MPAC by October of the year preceding the tax year applicable for the appropriate assessment roll changes. If an application-based process is used, the Program Administrator is responsible to approve or deny each application. The Administrator must also have a documented process where an owner can make a request to reconsider their status in the program if not included.

The Appellate Authority staff person must be a separate person from the Program Administrator and will review any requests for reconsideration in the program and advise the owner accordingly. This is not appealable to any other person or body; therefore, this staff person must be given the ultimate authority.

x) **Registry:** A publicly accessible registry of the eligible properties must be made available, and this list must be updated regularly to include any new properties added and any properties subsequently removed from the list based on changes in their ability to meet the established criteria. MPAC must also be made aware of any changes as they occur, and post roll assessment notices may be issued to the affected properties.

xi) **By-Law Requirement:** The City must create and pass a comprehensive by-law that will:

a) Implement the program;
b) Set out all criteria and the process to be eligible at the start and ongoing;
c) Establish the amount of relief and how the shortfall is recovered;

d) Appoint the required staff for Administrator and Appellate Authority; and
e) Set out the requirement for the relief to be passed from owners to tenants

8. Appendix "B" is extracted from the consultation report, and specifically outlines further details of the requirements to implement a Small Business Property Tax Class.

ANALYSIS

Broad Analysis

9. In the early stages, staff undertook a broad analysis of the financial impacts of a SBTC across the entire City, which included every Commercial property with a CVA of $500,000 or less and provided the maximum discount allowed of 35%. This analysis was strictly a review of the financial/tax dollar impact without consideration of whether this was an appropriate strategy for the City, nor what the administrative impact of such a program would be.

10. The full analysis was conducted by the Municipal Tax & Assessment Group (MTAG) and their full report is attached as Appendix "C" to this report with select tables shown here. With eligibility set at a ceiling CVA of $500,000 current value assessment, 607 commercial properties are captured out of a total of 1,830 or 33% of all 'business' properties.

11. Table 1 below shows the commercial properties would shift City taxes of approximately $849,000 off eligible properties to all other property classes, which would amount to a decrease of $1,410 per year or $117 per month for each property. The impact of this reduction, if spread across all property classes (including residential) would be a 0.34% increase for every other property.

Table 1 – City Wide – All Classes

Realty Tax Class	CVA Tax		Change in Tax	
	2022 Status Quo	2022 Small Business Class	$	%
Taxable				
Residential	$182,178,798	$182,792,179	$613,382	0.34%
Farm	$64,979	$65,197	$219	0.34%
Managed Forest	$2,079	$2,086	$7	0.34%
Multi-Residential	$9,269,374	$9,300,583	$31,209	0.34%
New Multi-Residential	$1,714,776	$1,720,550	$5,774	0.34%
Commercial	$50,822,432	$50,993,531	$171,099	0.34%
Commercial Threshold	$2,440,102	$1,591,406	-$848,696	-34.78%
Industrial	$7,254,237	$7,278,657	$24,419	0.34%
Industrial Threshold	$303,454	$304,476	$1,022	0.34%
Pipeline	$466,218	$467,788	$1,570	0.34%
Sub-Total Taxable	**$254,516,449**	**$254,516,452**	**$4**	**0.00%**
Payment In Lieu				
Residential	$43,852	$44,000	$148	0.34%
Commercial	$1,318,834	$1,323,274	$4,440	0.34%
Landfill	$38,217	$38,346	$129	0.34%
Industrial	$132,304	$132,750	$445	0.34%
Sub-Total PIL	**$1,533,208**	**$1,538,370**	**$5,162**	**0.34%**
Total Taxable and PIL	**$256,049,657**	**$256,054,822**	**$5,165**	**0.00%**
Exempt	$0	$0	$0	0.00%
Total	**$256,049,657**	**$256,054,822**	**$5,165**	**0.00%**

Table 2 below shows City taxes of approximately $828,000 off eligible properties, shifted only to other commercial properties, which would amount to a decrease of $1,376 per year or $114 per month for each property. The impact of this reduction, if spread across only the larger commercial properties would be a 1.63% increase in their taxes.

Table 2 – City Wide – Commercial Class

Realty Tax Class	CVA Tax		Change in Tax	
	2022 Status Quo	2022 Small Business Class	$	%
Taxable				
Residential	$182,178,798	$182,178,798	$0	0.00%
Farm	$64,979	$64,979	$0	0.00%
Managed Forest	$2,079	$2,079	$0	0.00%
Multi-Residential	$9,269,374	$9,269,374	$0	0.00%
New Multi-Residential	$1,714,776	$1,714,776	$0	0.00%
Commercial	$50,822,432	$51,650,621	$828,190	1.63%
Commercial Threshold	$2,440,102	$1,611,912	-$828,190	-33.94%
Industrial	$7,254,237	$7,254,237	$0	0.00%
Industrial Threshold	$303,454	$303,454	$0	0.00%
Pipeline	$466,218	$466,218	$0	0.00%
Sub-Total Taxable	**$254,516,449**	**$254,516,449**	**$0**	**0.00%**
Payment In Lieu				
Residential	$43,852	$43,852	$0	0.00%
Commercial	$1,318,834	$1,340,326	$21,491	1.63%
Landfill	$38,217	$38,217	$0	0.00%
Industrial	$132,304	$132,304	$0	0.00%
Sub-Total PIL	**$1,533,208**	**$1,554,699**	**$21,491**	**1.40%**
Total Taxable and PIL	**$256,049,657**	**$256,071,148**	**$21,491**	**0.01%**
Exempt	$0	$0	$0	0.00%
Total	**$256,049,657**	**$256,071,148**	**$21,491**	**0.01%**

12. Using a CVA threshold only, for the SBTC program has the following concerns, limitations, and issues:

i) There may be no correlation between low valued properties, in terms of location or districts, where the need for tax relief may be greater;

ii) The magnitude of this approach, when encompassing the entire City, including the required consultation, will be a very significant undertaking and complex to implement and manage;

iii) Successful assessment appeals, assessment base updates, infill expansions, or any other change that affects the current value will impact a property's eligibility in the program. This will complicate the post billing tax adjustment process and affect the property registry on an ongoing basis;

iv) The dollars provided to businesses in program of approximately $114-$117 per month are not particularly material to a going concern business; however, the offsetting tax increases to other properties, including homes may be a more substantial burden; and

v) Thresholds will need to be revisited for every future reassessment when values are updated due to shifts in property values in various areas related to the average.

Further Analysis – DBIA Only

13. Staff subsequently undertook analysis that was more geographically focused and isolated the Downtown Business Improvement Area (DBIA) which is a previously defined area. The regulations allow for municipalities to define geographic areas within the municipality for implementing the subclass.

14. A detailed listing of all properties within the DBIA was produced and reviewed to exclude properties that would not qualify as per the regulation, such as parking lots, vacant or excess lands. It was further refined using MPAC property codes and assessment descriptions, to remove specific properties that identify as the residential portion of the property, large offices, financial institutions, or the common element of a residential condominium building. Staff did however include the one industrial class property within the DBIA.

15. The refined list of 209 properties within the DBIA was supplied to MTAG for a financial analysis. The full report is attached as Appendix "D".

16. Table 3 below shows the DBIA properties would shift City taxes of approximately $583,000 off eligible properties, which would amount to a decrease of $2,800 per year or $233 per month for each property. The impact of this reduction, if spread across all property classes (including residential) would be a 0.23% increase for every other property.

Table 3 – Geographic Area (DBIA) – City Wide

Realty Tax Class	CVA Tax		Change in Tax	
	2022 Status Quo	2022 Small Business Class	$	%
Taxable				
Residential	$183,755,561	$184,178,595	$423,033	0.23%
Farm	$65,054	$65,204	$150	0.23%
Managed Forest	$2,079	$2,084	$5	0.23%
Multi-Residential	$9,216,840	$9,238,059	$21,219	0.23%
New Multi-Residential	$1,745,860	$1,749,879	$4,019	0.23%
Commercial	$51,241,044	$51,359,013	$117,968	0.23%
Commercial Threshold	$1,671,904	$1,089,240	-$582,665	-34.85%
Industrial	$7,682,672	$7,700,363	$17,691	0.23%
Industrial Threshold	$7,319	$4,768	-$2,551	-34.85%
Pipeline	$467,536	$468,612	$1,076	0.23%
Sub-Total Taxable	**$255,855,870**	**$255,855,816**	**-$54**	**0.00%**
Payment In Lieu				
Residential	$43,852	$43,953	$101	0.23%
Commercial	$1,027,002	$1,029,366	$2,364	0.23%
Landfill	$38,217	$38,305	$88	0.23%
Sub-Total PIL	**$1,109,071**	**$1,243,984**	**$134,913**	**12.16%**
Total Taxable and PIL	**$256,964,942**	**$257,099,800**	**$134,859**	**0.05%**
Exempt	$0	$0	$0	0.00%
Total	**$256,964,942**	**$257,099,800**	**$134,859**	**0.05%**

17. Table 4 below shows the DBIA properties would shift City taxes of approximately $576,000 off eligible properties, which would amount to a slightly lower decrease of $2,754 per year or $229 per month for each property. The impact of this reduction, if spread across the remaining business properties in the City would be a 1.12% increase for each one.

Table 4 – Geographic Area (DBIA) – Commercial Class

Realty Tax Class	CVA Tax		Change in Tax	
	2022 Status Quo	2022 Small Business Class	$	%
Taxable				
Residential	$183,755,561	$183,755,561	$0	0.00%
Farm	$65,054	$65,054	$0	0.00%
Managed Forest	$2,079	$2,079	$0	0.00%
Multi-Residential	$9,216,840	$9,216,840	$0	0.00%
New Multi-Residential	$1,745,860	$1,745,860	$0	0.00%
Commercial	$51,241,044	$51,814,048	$573,003	1.12%
Commercial Threshold	$1,671,904	$1,098,890	-$573,014	-34.27%
Industrial	$7,682,672	$7,685,234	$2,562	0.03%
Industrial Threshold	$7,319	$4,759	-$2,560	-34.98%
Pipeline	$467,536	$467,536	$0	0.00%
Sub-Total Taxable	**$255,855,870**	**$255,855,861**	**-$9**	**0.00%**
Payment In Lieu				
Residential	$43,852	$43,852	$0	0.00%
Commercial	$1,027,002	$1,038,487	$11,484	1.12%
Landfill	$38,217	$38,217	$0	0.00%
Sub-Total PIL	**$1,109,071**	**$1,120,556**	**$11,484**	**1.04%**
Total Taxable and PIL	**$256,964,942**	**$256,976,417**	**$11,476**	**0.00%**
Exempt	$0	$0	$0	0.00%
Total	**$256,964,942**	**$256,976,417**	**$11,476**	**0.00%**

18. Using the pre-defined geographically focused DBIA area for the purposes of this program may have the following benefits, as well as limitations and issues:

- Although this approach is simpler and more easily accomplished within a shorter time frame, there may be no correlation between the needs of this group of properties and the needs of businesses elsewhere in the City;
- The CVA per square foot of the businesses captured may vary greatly from those outside the DBIA and not assist neighbourhoods where above average rates are affecting sustainability;
- It is likely that businesses exist just outside of the designated DBIA area that would be identical in nature and the City could be subject to many appeals of the eligibility criteria and will raise concerns regarding taxation equity;
- The dollars provided to the DBIA businesses in the range of $230 per month using a 35% discount rate may not be material to a going concern business; however, the offsetting tax increases to other properties may be more substantial; and
- The percentage amount of the discount could be reduced to mitigate the impact to properties paying higher taxes; however, this further reduces the discount to the eligible businesses to the point where the program becomes cost prohibitive for both the City taxpayers to implement and for the tenants to receive any benefit from the

landlord. A high percentage of the businesses in the DBIA are tenants and as previously noted, there is no guarantee the benefit will reach the tenant.

19. The many variables that should be considered in contemplating creating a small business tax subclass in order to achieve a desired level of support, will be challenging and may unintentionally create inequities between tax classes, by creating significant tax burdens for some with little relief for others. Property tax and assessment are based on the principles of equity and fairness. In addition, many small businesses are tenants who may not benefit directly from property tax savings.

20. The Province and MPAC have paused activities related to the reassessment of property values. Properties' CVA continues to be based upon 2016 values and this will continue until at least the end of 2022. An announcement is expected in early November regarding this matter. Should property values form a part of a small business subclass definition, there is merit in waiting until MPAC completes the next reassessment because it is expected to have a significant impact on values due to the length of time being updated.

21. The consensus across municipalities is that an optional new subclass should not be viewed as a short-term COVID impact mitigation tool, but instead as a long-term tool that must fit with all the municipalities' strategic plans and objectives. The federal and provincial governments have initiated a number of support programs to assist businesses with financial pressures related to the pandemic.

22. There are industry concerns that an optional small business property subclass will not successfully address small business' most pressing issues and that a rushed implementation could have negative spill over effects for municipalities, businesses, and residents. Municipalities must ensure that the solution matches the problem and that any implementation of the subclass is equitable, effective, and efficient.

Conclusion

23. This report details the considerations, complexities, and increased costs of implementing any type of Small Business Tax Class program. There are many impacts, both known and unknown, that must be considered regarding such an initiative. As a result, Staff are not recommending implementing a Small Business Tax Class in the City.

24. Should Finance and Corporate Services Committee forward this report to General Committee with a recommendation to proceed, the utilization of a geographic location such as the Downtown BIA would tie more closely into Council's strategic plan and would be somewhat simpler to implement from an administrative perspective. Given the requirements for consultation and other timing factors, implementation before 2023 is not feasible; however, the following implementation plan and key dates would be necessary:

1) Establish subclass eligibility and model potential impacts – First quarter of 2022;
2) Consult with all stakeholders in conjunction with Economic and Creative Development and appoint required staff positions for ongoing program administration – Second quarter of 2022;
3) Prepare the by-law, create public registry, provide information to MPAC for 2023 roll return, and initiate consultation with Minister of Finance regarding matching education tax rate reduction – Third quarter of 2022; and
4) Re-evaluate property eligibility on an ongoing basis based on roll return changes – Fourth quarter of 2022 and going forward.

ENVIRONMENTAL AND CLIMATE CHANGE IMPACT MATTERS

25. There are no environmental and climate change impact matters related to the recommendation.

ALTERNATIVES

26. The following alternatives are available for consideration by Finance and Corporate Services Committee:

Alternative #1 Finance and Corporate Services Committee could recommend that during 2022, staff proceed to plan for a geographic location program, such as the DBIA effective for the 2023 tax year.

This alternative is not recommended as it will cause serious inequities with small businesses in other parts of the City, there is no ability to ensure tenants will receive the benefit, property taxes will shift to other properties including businesses outside the DBIA and potentially homeowners, and the possibility that the cost of staff and administration will outweigh any benefits.

Alternative #2 Finance and Corporate Services Committee could recommend that during 2022, staff proceed to plan for a City-wide program.

This alternative is not recommended because the same impacts noted above will occur on an even larger scale, any benefits would be extremely difficult to track or report on, and the cost of the program will expand in direct relation to its size and complexity.

FINANCIAL

27. As this Staff Report is being presented for information purposes only, no cost implications are included.

LINKAGE TO 2018–2022 STRATEGIC PLAN

28. The recommendation(s) or options included in this Staff Report support the following goals identified in the 2018-2022 Strategic Plan:

☒ Growing Our Economy

☒ Building Strong Neighbourhoods

APPENDIX "A"

Ontario's Small Business Property Subclass: Considerations for Municipalities
September 2021
Developed by a Municipal Working Group

APPENDIX "B"

Process for Establishing a Small Business Property Subclass
Excerpt from Appendix A

APPENDIX "C"

Small Business Tax Class in The City of Barrie Impact Study
July 16, 2021
Prepared by MTAG Paralegal Professional Corporation

APPENDIX “D”

Small Business Tax Class Follow Up Report: BIA Properties
September 27, 2021
Prepared by MTAG Paralegal Professional Corporation