Property Tax Explained
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The following article has been adapted from a tax seminar prepared initially for the information of TABIA's Board of Management.

Intro

The average person probably knows as much about rocket science as he does about his property tax bill. When you look at your bill and the explanation of the items on it, you might have concluded that it would be better printed on Kleenex because you're paying through the nose. And you might be excused for concluding that there is one thing missing - a section which would explain the explanations.

Even though you may not know a lot about tax, there are some things you do know. You know that:

a) A political promise today means another tax tomorrow;

b) You really can't beat the game. If you earn anything, it's minus taxes. If you buy anything it's plus taxes.

c) A "slight tax increase" costs you about $300, while a "substantial tax cut" lowers your taxes by about $30;

d) A politician will consider every way of reducing taxes except cutting expenses.

In The Beginning - Before Current Value Assessment

Property was assessed; that is, the municipal government sent out a valuator who examined the property and determined its value. And once a property was assessed, that assessment stood indefinitely. The last assessment before CVA was done in the 1940's. It would probably never change unless you renovated or added to your property. Each year the municipality would figure out how much tax rev. it wanted and then it would set the tax rate - so for example, if the assessor said your property was worth 100,000.00, and the tax rate was set at 1%, you would pay 1% of 100,000.00 i.e. $1,000.00. But when it comes to tax, governments really don't want the taxpayer to understand what is going on, so instead of talking about tax rate, it talks about "mill rate". So, remember, "mill rate" is just another word for tax rate.

This method of property assessment gave stability to the system. If your property was assessed at $100,000.00 in 1956, unless you made changes to it, it would stay at 100,000.00 year after year. You knew that the municipality would change the tax rate from time to time, but you also knew that the rate would rise reasonably slowly, so you always had a good idea of what your taxes would be as years went by. As the City expanded i.e. new homes and buildings were built, they were assessed when built, so the values would be higher than on older properties. So for example a house built at College and Ossington in 1956 might have been assessed at say 30,000, but the identical house built at Finch and Victoria Park in 1966 might be assessed at 40,000. But when you bought that house you knew what the assessment was and you knew with reasonable certainty what your annual tax bill would be. If you thought the taxes were too high or outside your budget, you didn't buy that house, you bought a different house with lower assessment.

This did lead to anomalies. For example, over a long period of time, as market values rose, assessed values stayed the same. So it could well happen that a new, modest-size house at Steeles and Islington might be assessed higher than an large, older home in Rosedale, although the Rosedale home would bring much more money on the market. But the market has a way of straightening out that kind of discrepancy, because the market value of each home reflects in part the annual tax bill. If the taxes on a home are $1,000 a year, a buyer takes that into account when considering what he is prepared to pay for it. If that same home had an annual tax bill of $15,000, he may not be willing to pay nearly so much for that home. So the price of the property reflects in part the level of tax imposed on it.

Education Tax

Contrary to popular belief, the municipality does not set the rate for the entire tax bill. A large part of your bill is for education. That is not set by the City. Prior to CVA it was set by the individual school boards. Since CVA it has been set by the provincial government. Once the government has fixed the rate, it works the same as the municipal portion. That is, you pay the rate multiplied by the amount of your assessment. The Province does not set a uniform rate across the Province. It differs from area to area, and at the moment, the Toronto rate is significantly higher than the suburban rate, by about 28%*.

Municipal Tax

The municipal tax rate is set each year by the municipal council. Councillors are elected by residents of the municipality. Councillors don't like to upset those people who might vote for them. So they don't like to have to increase taxes on their constituents. So when they want more revenue, what should they do? In Toronto, they quickly realized that there are a lot more homeowners than there are business owners, and a lot of the business owners don't live in Toronto, they live outside Toronto and consequently don't vote in Toronto. So if City Council is going to have to upset some people, whom should it upset? Certainly not the residents who all might vote in the next election. Better to upset the business owners because there are so few of them relatively speaking, and as many of them don't even live in the municipality, they can't vote there. Does the phrase "taxation without representation" have any significance here? Some American comic once quipped that we rebelled against England because of taxation without representation, now we have taxation with representation, and taxes are worse than ever.

Anyhow when the City needed more revenue, it would perhaps increase the tax rate or mill rate on homeowners, but it would increase the rate on businesses even more. So when CVA came into effect, businesses were being taxed at a rate almost five times the rate on homeowners.

Business Occupancy Tax (BOT)

To make matters worse there was also a Business Occupancy Tax. This was different from the property tax, but was related to it. The BOT was not levied on the property, but rather on the business which was carried on in the property. The BOT was further related to property tax because the amount of the property tax determined the amount of the BOT. In most cases the BOT was 50% of the property tax, but it was higher on some businesses, like banks, and lower on others. The tax did not have to be paid by the property owner. It had to be paid by the business owner. Of course they could be the same person, but very often were not. But if you owned a business property with an assessed value of $100,000 you might pay tax of $5,000 and your business tenant would pay in addition BOT of $2,500 so that the total tax take for the municipality would be $7,500.

This system was tolerable for business property for two reasons. One, the property owner did not have to pay the BOT, and so if you had no tenant you were not stuck with BOT. Two, the assessment values were static. When you decided to open your business or to purchase a property, you knew what to expect insofar as taxes were concerned, and you factored that into your investment calculations. If it made sense from an investment standpoint, you proceeded. If it made no sense you negotiated a lower price or you looked for a different location.

So that was the basis of property tax in the beginning. But come 1996 all that changed.

CVA Starts

Pretty near anybody you talk to will tell you, if asked, that they are underpaid for the work they do. Name some other occupation, and that same person will probably tell you those workers are overpaid. Such is human nature. So it is with tax. I am taxed too much, but taxes should be raised on those other guys, because they can afford it, and besides which, they are not paying their fair share. So it was with property tax. Remember we talked about anomalies in the old system. The Rosedale home being taxed low in comparison to the Islington house. Well the provincial government decided to rectify that situation. It introduced Current Value Assessment (CVA).

The idea was to assess every single property in the Province every year, and that new assessment would form the basis of the next year's property tax. That way everyone pays tax based on the current value of his property. What could be more fair than that? Well, in our opinion, the government overlooked three matters which should have been very obvious. Matter One: Properties which had last been assessed decades ago would suffer a gigantic leap when assessments were based on 1996 values. Matter two: Toronto and a few other municipalities had overloaded commercial property tax rates. Matter three: Markets are volatile, the real estate market is as volatile as any, and tying tax to a market makes for volatile taxation. It makes about as much sense as tying income tax to the stock market.

So what was the result. Properties in the older parts of the City were hit the hardest. College, Queen, Bloor - assessed values skyrocketed to multiples of what they had been. If you had been assessed at $100,000.00 you might find now that you were assessed at $400,000.00 (or even higher). That would mean a quadrupling of your taxes in one year. So the majority of commercial property in Toronto was faced with actual tax bills far beyond any level those business or property owners had imagined in their wildest nightmares. Many retail stores were threatened with insolvency. For property owners there was even worse news. The old BOT was to be eliminated. That should have been good news. Well, old taxes never die - they just change their names. Whatever the BOT was, it would now become part of the property tax, and we wouldn't call it BOT any more. Now it was a tax on property, not on business.

But at least some people would benefit. A minority of commercial property owners saw their assessed values go down. "Great", they thought, "we'll be getting tax reductions".

2.5 TO 5

Double your tax revenue.

Things looked so dire that merchants across the city were in panic mode. They actually took to the streets, marching with placards. Then the government panicked because it knew that these merchants were the least likely to ever participate in a demonstration, and of course the government doesn't like public demonstrations, especially by people who form part of its natural constituency. So the government went into panic control mode. It decreed three things:

1) capping - that tax on any commercial property couldn't increase by more than 2.5% of its prior year's tax;

2) that to cover the tax loss to the City resulting from the caps, those entitled to reductions would only be reduced by the same 2.5% and;

3) that the municipality could not increase tax rates on commercial property until the differential between the residential rate and the commercial rate narrowed to the Provincial average.

That last measure, the rate freeze, was introduced by a Bill designated as Bill 140.

That stemmed the panic on all sides, although those entitled to reductions felt that they had been swoggled, but it gave the governments, both municipal and provincial, time to figure out how to get where they wanted to go. So two things followed. After a couple of years of 2.5% increases, and the City all the while screaming that the province was destroying it by limiting its ability to increase the tax rate on commercial property, the Province caved. It granted authority to the City to double the CVA increases from 2.5% to 5%, but it kept the tax rate frozen. So the City quickly jumped on that and raised the CVA increases to 5%. So at this point we're getting up to full CVA level twice as fast.

Mark Twain once said that the difference between a taxidermist and a tax collector is that the taxidermist takes only your skin. The second thing that followed is that the City found a gap in the legislation which enabled it to refuse the reductions. Remember how some thought their taxes would decrease because their assessments had decreased. Now they were locked in at whatever level they were at, and in some cases that level was unconscionably high and totally uneconomic. For these people there were no significant reductions, and many of them were left holding property which was no longer commercially viable. And while that legislative gap has always been thought of as an unintended loophole, we are more inclined to believe that it was a deliberate omission by the Provincial government.

1.5 Increase

Government thinks it's a lot easier to trim the taxpayers than to trim expenses.

The city, not satisfied with the 5% annual increases, and not satisfied with the clawbacks from those entitled to reductions, and not satisfied with withdrawal of services from commercial property e.g. garbage pick-up, clamored for more. The new Liberal Government was only too happy to oblige. Remember Bill 140 freezing the commercial tax rate. That was repealed. The Liberals allowed the city to increase the commercial tax rate by half the increase on the residential rate. In 2004 that translated into a 1.5% increase on commercial property in addition to all of the foregoing. The Liberals claim that this is only a one year deal, but that may mean that next year the deal will be even worse. And speaking of worse, the next development is the Liberals bringing down their notorious budget.

10% Increase

What could be worse? OR *Skinning*

You might say that taxation is analogous to sheep shearing. As long as you shear a sheep it will continue to produce a new crop of wool. But you can skin the animal only once. And that's where we think we are now. What happened? The budget says that now the city may increase our CVA taxes by 10% annually. There's another provision which says the city can increase your CVA taxes by five percent of the CVA total. It's not clear whether these two provisions are alternative or whether they can both be implemented together. Either way, the intent is to accelerate CVA and get all commercial property to its CVA level much faster. And we think that this is the kiss of death for small retailing in Toronto unless we get some other amelioration. Essentially, the Provincial government seems now to have washed its hands of the whole problem, and turned it over to the City to struggle on.

In light of these developments, Mayor Miller has requested that the City's Finance Department explore ways of coping with this situation. At his request, the Department has held a series of public forums on the issues involved, and is now preparing a report to the mayor on possible courses of action. Keep your fingers crossed.

TABIA's Efforts

TABIA has been at the forefront of the struggle to obtain tax relief. From the time CVA was introduced until the present, TABIA has been a frequent presence at both Queens Park and Toronto City Hall. TABIA has maintained throughout that there should be a special class of commercial property, be it "neighbourhood commercial", "street retail", "traditional format" or even "disadvantaged business". Whatever name is attached to the class, it should benefit from a rate of tax at or close to the residential rate. Failing repeal of CVA (which seems highly unlikely for the immediate future) TABIA sees special class as the only practical method of preserving Toronto's shopping streets. With a suitable rate, both caps and clawbacks could be eliminated, and small retailers could cope.

WHAT YOU CAN DO!

This is what you should be doing, both through your BIA and as individuals:

1. Contact your local Councillor. Insist that he or she come to a Board meeting and to your Annual General Meeting. Insist that he or she lay out their position on the tax issue. Will he/she support a special commercial class as outlined above? Don't let them off the hook by the excuse that it would be hard to define such a class. It's not a question of definition; it's a question of political will. Encourage all of your members to do the same.
2. Repeat the process with your local MPP.
3. Write Mayor Miller and outline the problems you are having with CVA. Explain what it will mean to your business if the process to your full CVA tax level is accelerated.
4. Repeat the process with the Minster of Finance*****, The Honourable Greg Sorbara, and with the Minister of Municipal Affairs******, The Honourable John Gerretsen.
5. Send copies of your letters to your local MPP and to your local Councillor.
6. Follow up each communication on a monthly basis, by telephone and by letter, asking the addressee what progress has been made, and what steps are being taken.

We currently have a membership of over 27,000, together we can make a difference!

And if you need help, we are available. Call John Kiru at (416) 889-4111 or Lionel Miskin at (416) 222-4582.

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Contact information for all MPP's can be obtained at the following website:
http://www.ontla.on.ca/web/members/members_current.do?locale=en

Contact information updated as at June 2, 2008