TABIA Beer & Taxes Event Speech

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We all know that the root of our property tax problems lies in the assessment methodology. So the system has been tweaked over and over again during the last 20 years. All of it just Band-Aid, stop gap measures, just enough to prevent a total disaster. And all of it adding complexity to a system which was promoted as simple. Bandied about are suggestions for more tax capping, or assessing properties at current use rather than highest and best use, or creating a small business class (although no one has yet been able to come up with a workable definition of "small business", and big business is extremely important to Ontario's welfare as well). All of it just more tweaking.

TABIA is suggesting a different form of capping, or limiting if you will, limiting assessment increases. It is to be noted that some 13 American states use some form of assessment capping.

BENEFITS OF CAPPING ASSESSMENTS

1. It would protect taxpayers against huge increases in assessment on any given property, and thereby protect against huge increases in tax.
2. It would restore certainty and predictability for owners, tenants and other occupants.
3. It would be administratively much simpler than capping tax increases.
4. Applied to all property, it would avoid the necessity of creating a special class and obviate the extremely difficult task of defining "small business".
5. It would not impair municipal tax revenues which would be determined in the usual way by council setting the tax rate as it does now.
6. MPAC could continue to assess on the basis of current value without alteration to its methodology or procedures, and the tax bills would simply show the full CVA together with that portion of it which would be subject to taxation.
7. It would partially protect business from the discriminatory, and sometimes punitive rates, which the Province imposes on various municipalities through **its** property tax (mis-named the Business Education Tax).
8. It would avoid the shifting of any tax burden between property classes.
9. Owners whose assessments were reduced would get the full benefit on a reduced tax bill (i.e. no claw-backs required)
10. Applied to all property, including industrial, residential and rural, assessment capping could bring many of these benefits to all property owners.
11. The proposal is simple and, unlike the present system, easy to understand.

There are certain political decisions that would have to be made to implement our suggestion. A base would have to be selected from which to calculate assessment increases. A decision would have to be made as to the level of increase which would trigger the cap. A decision would have to be made as to whether the property would revert to full CVA when it changes hands, or whether the cap would continue. Presumably a provision would have to be enacted to ensure that tenants would not be penalized if the reversion option is chosen. But these are not hurdles, simply aspects of the system which have to be implemented.

I **stress** that this proposal is **not** the “California system”. California adopted assessment capping by reason of a binding referendum, but went much further than merely capping assessments. In California the state collects the property tax and distributes it among the various regions. The issue in California is that the law tied the hands of the legislature from increasing tax rates. An increase requires a two-thirds majority vote in both houses of the state legislature. Good luck with that. Even to levy a special purpose tax, such as for education, requires a two-thirds approval of the electorate. TABIA does **not** recommend such restrictions for Ontario.

The major objection to TABIA’s proposal is that, after time, you could get a growing gap between full CVA and taxable assessment on any property. A report prepared last July for Toronto’s Executive Committee criticizes the proposal, stating: that “the greatest benefit would accrue to those whose property values, therefore wealth, have increased the most.” The difficulty with that criticism is that you are taxing paper wealth which has not been realized and may never be realized.

Another criticism is that it would create inequality with similar properties being taxed on different assessment levels because of the gap. That could only occur if the property reverted to full CVA on a transfer. Someone owning a property for many years might well end up with a dramatically lower assessment than someone purchasing a similar property which had changed hands more frequently. This is true, but is that such a bad thing? Right now we have glaring inequalities among similar properties, and owners or tenants do not know what level they will arrive at from one assessment cycle to the next. How do you plan your business if one of your greatest expenditures is at the whim of the marketplace?

CURRENT USE PROBLEMS

Why did TABIA reject current use as the basis for assessment? Well, it’s fraught with problems. It’s anathema to those who feel that cva is gold standard for taxing property because current value as outlined in the legislation is not based on current use; so the whole assessment methodology would have to change

Who would be included? Is it all business or just retail? Does that include service businesses e.g. insurance brokers or investment counsellor such as Edward Jones? what about gas bars? Are restaurants considered retail? What about bank branches? What about professional offices, e.g. dentists, walk-in clinics, law offices etc? What about franchised operations?

Do you distinguish the exact nature of the business when assessing? For example, do you value a maternity shop on the basis of other maternity shops or on the basis of other retail shops generally, which could include a Starbucks or a McDonalds? If it's maternity shops, it may be difficult to find comparable properties. If it's Starbucks or McDonalds, is that a fair comparison?

Sometimes a retailer, and McDonalds is a good example, is very anxious for a specific location, and is prepared to buy or lease at well above current market prices. Does this now pull up the assessments of all neighbouring retailers? This is a big part of the problem with the present system where a developer is prepared to pay well above current prices for a specific property. So we will have continued the problem in a different guise.

CHANGE

Now let's talk about change for a moment.

Woodrow Wilson is quoted as saying: "If you want to make enemies, try to change something."

Niccolo Machiavelli said: "There is nothing more difficult to take in hand, more perilous to conduct, or more uncertain in its success, than to take the lead in the introduction of a new order of things."

Two gentlemen named James Belasco and Ralph Stayer said: "Change is hard because people overestimate the value of what they have and underestimate the value of what they may gain by giving that up."

One of the grumblings we have heard around City Hall is this: we have been working with the present system for 20 years and we've become accustomed to it and are comfortable with it. Why do we have to change it?

Why change? TABIA says: Because we should be emphasizing fairness and encouraging business, and not continuing to subject our tax system to the orthodoxy and dogma of full CVA.

One last quote, from the late, great football coach, Vince Lombardi: "We didn't lose the game; we just ran out of time.". Many municipalities, and especially Toronto, the economic engine of the country, are running out of time to save the backbone of their business communities.