REPORT FOR TABIA BOARD MEETING NOVEMBER 16, 2021

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This report is your typical good news - bad news story. I'll start with the good news, but don't get too excited, at least until you hear the bad news.

The good news is that the City has taken advantage of that provision in the March 2021 provincial budget allowing municipalities to create a sub-class of commercial property to provide small business with a reduced property tax rate. The budget legislation left it entirely up to the municipality to define "small business" and to otherwise determine what businesses should be in that subclass.

Based on info from the city Finance Dept. (FD), about 25,000 businesses are to be included. The sub-class will benefit from a 15% reduction from the standard commercial rate, as established by the city in its annual budget, and, it would appear, that the province will match that with a similar 15% rate reduction through the Business Education Tax, which would be in addition to any reduction which would result from the Budget's amendments to that tax, which for Toronto businesses, is estimated to be about 10%.

The bad news, and it is tripartite bad news, is that:

1) Not all those businesses will see those reductions, because there is no provision requiring landlords to pass the reduction on to their tenants.
2) The FD has drawn the definition so narrowly that many thousands of small businesses will not fit into the definition.
3) The revenue loss to the city from the sub-class is to be made up by higher tax rate on the rest of the commercial class, which would include those small businesses not included in the definition. It is anticipated that the increase will be about –0.85% on top of the standard commercial rate which City council will establish in its 2022 budget.
4) The graduated rate will be discontinued.

While it was recommended, by us and other advocates, that the revenue loss be made up spreading the increase across all classes of property, including residential, the mayor and others have been and continue to be dead set against any increase on residential property. The increase on residential property would be about 0.66%. You will recollect that the mayor has consistently promised that the residential tax rate would not increase more than the rate of inflation. This of course is somewhat disingenuous, given that the tax rate on residences does increase regularly through indirect means, e.g., waste collection, water and hydro rates and permits, to name a few.

The other concern of the mayor is not to tax the big real estate investors in the downtown core which he wants to preserve.

So of course, now you are wondering who is in and who is out.

If you fit the within following parameters you are in. Everyone else is out.

Here are the criteria: generally business properties with a CVA not more than $1 million.

For properties downtown, central waterfront, growth centres and/or avenues with CVA not more than $7 Mill with lot size (not floor area) not more than 7,500 sq ft. or, for commercial condos, GFA not more than 2,500 sq. ft. We advocated for 20,000 sq. feet (furniture or appliance or floor coverings etc.) but at least minimum 10,000 sq. ft. floor area, not lot area, and anyone with above average CVA increase. Obviously, we were ignored on those matters.

BUT YOU CAN BE EXCLUDED even though you meet all these requirements: any tenant business inside an office building or shopping mall and some businesses in larger properties, e.g., strip malls who's combined CVA or lot size fall outside the above criteria:

If you are out, or if you qualify but your landlord will not pass on the saving, there may still be some light at the end of the tunnel, not for 2022 unfortunately, but for following years.

The enactment directs the FD to report no later than the first quarter of 2022 on:

A. The feasibility of developing a mechanism for ensuring that Subclass property owners with tenants in gross leases pass down the benefits of reduced property taxes to those tenants; and
B. If such a mechanism is not feasible on the part of the city, whether there are any changes to Provincial law which could achieve that objective.

In addition, City Council directed the FD to report before the 2023 taxation year on the feasibility of:

A. Adding Business Improvement Areas to the geographic areas covered under the Subclass, *under section 3(a)(B)(i) of Attachment 1 to the report (October 12, 2021) from the Chief Financial Officer and Treasurer*;

B. Developing additional criteria and/or an application-based system that would allow for strip malls, which have small businesses as tenants, to be included within the Subclass; and
C. Developing an application-based system that would allow for additional small commercial properties, which fall outside of the current eligibility criteria of the Subclass, to be included within the Subclass.

So, what will your finance committee be doing? We will be at provincial govt advocating for legislative amendments to require landlords to pass on any reduction to their tenants.

We will be at the municipal level advocating for an extended definition of small business to be as inclusive as possible, hopefully to include all small businesses the city.

We will be advocating for an inexpensive and efficient application process.