# The Never-Ending Story of Property Tax Reform in Ontario, Canada: Lessons for Other Countries?

Presentation to Seminar on Property Rates
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January 26, 2009

# Introduction

- Canada is a federal country with three levels of government: federal, provincial and municipal
- Municipalities are not recognized in the Constitution except to the extent that they are the responsibility of provinces
- Property tax policy can vary among provinces
- Presentation is on property tax reform in the Province of Ontario

# Introduction: Role of Property Taxes in Municipal Finance, Ontario

- Sources of municipal revenue, 2007:
  - Property taxes – 47%
  - User fees – 22%
  - Intergovernmental transfers – 21%
  - Other revenues – 10%
- Province also sets property tax rates for education

# Introduction: Property Tax in Ontario

- Property taxes are levied on residential, commercial and industrial properties
- Property tax in Ontario is a local tax (except for education)?
- Property tax = tax rate X assessment base?

# Introduction: The Need for Assessment Reform

- Ontario Committee on Taxation in 1967 identified inequities in the assessment system:
  - within classes of property
  - between classes of property
  - across municipalities

# Introduction: History of Property Tax Reform in Ontario

- Provincial takeover of assessment, 1970
- Reassessment at local option, 1978
- Taxing Matters, 1985
- Fair Tax Commission, 1993
- Greater Toronto Area Task Force, 1996
- Who Does What Panel, 1996
- Major property tax reform, 1998
- Subsequent reforms, 1999, 2000, 2001, 2004, 2005, 2006, 2007, 2008

# Property Tax Reform, 1998 and Beyond

- Current value assessment
- Property classes
- Optional property classes
- Graduated tax rates
- Capping
- Phase-ins
- Mitigation measures

# Current Value Assessment

- All properties are assessed at current (market) value: price that would be struck between willing buyer and willing seller in an arm's length transaction
- Properties are assessed by Municipal Property Assessment Corporation (MPAC)
- 4.7 million properties of which 4.1 million are residential
- Properties assessed every 4 years

# Property Classes

- Seven major classes of property: residential, multi-residential, commercial, industrial, pipeline, farm, managed forest
- Different tax rates for different classes of property (generally over-tax business)
- Limits on tax differentials (tax ratios) set by province in an effort to move business tax rates closer to residential tax rates

# Tax Ratios

- Tax ratio is the ratio of the tax of a property class to the tax rate of residential property
- Example: if the commercial tax rate is 4% and the residential rate is 1%, the tax ratio for commercial properties is (4/1) = 4
- Residential class has tax ratio of 1

# Target Ratios and Levy Restrictions

- Province sets “target tax ratios” e.g. 0.6 to 1.1 for commercial class
- Tax ratios for each class can be maintained at level of previous year or move closer to the target ratio; cannot move further away
- If the tax ratio for multi-residential, commercial, and industrial classes exceeds provincially-prescribed threshold, municipality cannot increase tax burden on that class
- There have been exceptions where shift onto residential was considered too great

# Optional Property Classes

- Municipalities can choose optional property classes
- Main optional classes:
  - new multi-residential
  - office buildings
  - shopping centres
  - parking lots/vacant land
  - large industrial
  - professional sports facility

# Graduated Tax Rates

- Graduated tax rates to levy lower tax rate on lower valued commercial and industrial properties
- Commercial and industrial classes can be divided into three bands of assessment according to value with different tax rates for each band

# Graduated Tax Rates

- Example of Graduated Tax Rates

- Band 1: Assessment 0 to $200,000 – 1%
- Band 2: Assessment $200,001 to $500,000 – 1.5%
- Band 3: Assessment $500,001 or greater – 2%

# Mandatory Capping

- Annual limits on reassessment-related tax increases of up to 10% of the previous year's taxes or an annual increase of up to 5% of the Current Value Assessment (CVA)-level of taxes

- Properties with reassessment-related decreases may have the decrease "clawed back" to finance the mitigation for properties with tax increases.

- Properties with taxes within $250 of their CVA taxes may be taxed at the CVA-level of taxes.

# Mandatory Capping (continued)

- Beginning in 2009, municipalities have the option to remove properties from capping and clawback system once they have reached their CVA level taxes
- Capping favours properties that increase in value more than the average at the expense of properties that increase less than the average

# Assessment Phase-Ins

- Municipalities have to phase in reassessment-related tax increases (not decreases) over four years
- Phase-ins extended to all property classes (including commercial, industrial and multi-residential) for 2009
- Phase-ins can be combined with capping and clawbacks

# Mitigation Measures

- Mandatory relief from reassessment-related tax increases for low-income seniors and disabled (residential class only)
- Mandatory rebates for vacant buildings (commercial and industrial) and properties of charities
- Optional relief from taxes that are unduly burdensome (residential, farm, managed forest)
- Optional rebates for properties of non-profit corporations, heritage properties and brownfield properties

# Education Property Taxes

- Province sets the education property tax rate
- Uniform rate on residential property
- Different rates for business education taxes (BET) across municipalities
- For 2009: BET rates above 1.6% (target maximum) will benefit from tax cuts

# Conclusion

- Is the property tax a local tax? Only partly.
- Is the property tax = tax rate X assessment base? Clearly, not.
- "Tax policy is the product of political decision making, with economic analysis playing only a minor supporting role" (Randall Holcombe 1998).
- Political pressure to maintain the tax burden at or near its current level (e.g. capping) or to favour one group of taxpayers over another (e.g. over-taxation of business) often overrides economics principles.

# Lessons for Other Jurisdictions

- You can't wait too long to reform the property tax.
- It's hard to reform a visible tax.
- It's difficult to shift tax burdens onto residential properties.
- Taxpayers need to have confidence in the assessment process.
- It's crucial to determine the impact in advance.
- Phase-ins and tax deferrals are essential... but keep them simple.