
Municipal Tax Policy Options: Ontario 2009

Presentation to AEC Information Breakfast
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October 8, 2008

Introduction

- Property tax = tax rate X assessment base
- Tax rates are set by determining total budget requirements (net of non-tax revenues) and dividing by taxable assessment
- Property tax is a local tax (except for education)

Municipal Tax Policy Tools

- Property classes
- Optional property classes
- Graduated tax rates
- Capping
- Phase-ins
- Mitigation measures
- Property tax incentives

Property Classes

- Seven major classes of property: residential, multi-residential, commercial, industrial, pipeline, farm, managed forest
- Different tax rates for different classes of property
- 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

Property Taxes

Property tax = tax rate X assessment base?

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.
- New construction was capped at tax levels of six comparable properties.

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

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

Property Taxes

Property tax = tax rate X assessment base?

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

Property Tax Incentives

- Tax Increment Equivalent Grant (TIEG): municipality provides a grant to a new business to cover a portion of the property tax increase that new businesses face
- Tax Increment Financing (TIF): municipality uses incremental taxes arising from increase in assessment to fund infrastructure

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
 - New construction will benefit from 1.6% BET rate immediately (new construction property classes)
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Conclusion

- 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.