Subject: Impact of Reduced Industrial Tax Ratio and Subclass Discounts

Report to: Regional Council

Report date: Thursday, April 23, 2020

Recommendations

That this report **BE RECEIVED** for information.

Key Facts

- The purpose of this report is to respond to a Councillor Information Request generated at the April 17, 2019 Corporate Services Committee meeting during review of CSD 16-2019 – 2019 Property Tax Policy, Ratios and Rates. Staff are presenting this information concurrently with the 2020 tax policy report on the committee agenda for April 8, 2020.
- **Councillor Information Request 1** – Provide Information respecting the alignment of Niagara Region's tax policy respecting the commercial and industrial vacancy rebate and subclass reduction phase-out with the Province of Ontario's policy.
- Regional Council approved a phase-out schedule for both vacancy programs over a multi-year approach starting in 2019 for the vacant unit rebate and ending in 2024 with the subclass discount while the Province introduced a phase-out for education rates vacancy programs that ended in 2019.
- If the Region were to eliminate the subclass discounts it would create a $1.3 million benefit for the residential tax class however, changes to Regional policy could not take effect until the 2021 taxation year.
- **Councillor Information Request 2** – Provide information respecting the effects that lowering the industrial tax ratio would have on the residential tax ratios.
- The residential property class pays 73% of the Regional levy therefore any tax ratio reduction to the industrial class will increase the residential tax impacts in addition to any budget increases required for the year.
- The industrial tax class is responsible for approximately 3% of Regional taxes and under the 2020 tax policy there is a 0.52% tax shift away from the industrial class.

Financial Considerations

In response to CIR 1, the impacts of reducing the subclass discounts for industrial/commercial excess/vacant land properties would have no impact on the Region or Area Municipalities ability to levy required amounts. Any reductions to the discount factors would cause a shift of property taxes away from all other property classes including residential and occupied industrial class. For CIR 2, there would also be no direct costs to the Region as a result of a decreased industrial tax ratio. Any reductions to tax ratios would not limit the ability of the Region and Area Municipalities to levy required amounts. It would, however cause tax shifts onto other property tax classes including the residential and occupied industrial class.

Analysis

Councillor Information Request 1 – Provide Information respecting the alignment of Niagara Region's tax policy respecting the commercial and industrial vacancy rebate and subclass reduction phase-out with the Province of Ontario's policy.

As noted in CSD 23-2020 – 2020 Property Tax Policy, Ratios and Rates, there is an anticipated $5 million shift to the residential tax class based on reassessment impacts for the 2021 assessment cycle. The analysis presented below has been presented with this preliminary information in mind. The anticipated 2021 re-assessment impacts as well as the option to mitigate this impact by way of eliminating (rather than phasing out over time) the industrial/commercial vacant/excess land subclass discounts had been discussed with Area Treasures and was supported as an option to mitigate 2021 reassessment impacts.

As part of the review of CSD 16-2019 - 2019 Property Tax Policy, Ratios and Rates, staff had indicated that the Province introduced legislation in April 2019 to phase-out the commercial/industrial vacant unit rebate & subclass discount for vacant/excess land for the education tax rates. Staff noted at that time that the phase-out schedule adopted by the Province for education purposes was more aggressive than the phase-out schedule approved by Regional Council for municipal purposes. A comparison of the adopted phase-out schedules is summarized below in Table 1. As can be noted, the Province's adopted phase-out schedule will see an end to both vacancy programs for the 2020 taxation year while the Region's schedule does not conclude completely until 2024.

Table 1 – Region versus Provincial Phase-out Plan for Commercial/Industrial Vacancy Program

Year	Adopted Regional Policy		Adopted Provincial Policy	
	Commercial/ Industrial Vacant Unit Rebate %	Commercial/ Industrial Vacant/Excess Land Reduction %	Commercial/ Industrial Vacant Unit Rebate %	Commercial/ Industrial Vacant/Excess Land Reduction %
2019	**20%**	**30%**	**10%**	**15%**
2020	**10%**	**30%**	0%	0%
2021	0%	**22.50%**	0%	0%
2022	0%	**15%**	0%	0%
2023	0%	**7.50%**	0%	0%
2024 and onwards	0%	0%	0%	0%

If Council approves a complete phase out of the commercial/industrial vacant/excess land subclass discounts for the 2021 taxation year, the eliminated subclass reduction would result in a savings for the residential class of approximately $1.3 million in 2021 with increases in the commercial and industrial classes of approximately $0.7 million and $0.6 million respectively.

2021 Assessment Cycle Update

As discussed in CSD 23-2020 – 2020 Property Tax Policy, Ratios and Rates, there are significant impacts anticipated on the residential tax class as a result of the 2021 re-assessment cycle. Based on the preliminary estimates provided by the Municipal Property Assessment Corporation (MPAC), the residential tax class in Niagara is anticipated to experience an approximate 50% (i.e., 12.5% per year) increase in average assessed values while all other non-residential including commercial and industrial properties will experience a 20% (i.e., 5% per year) assessment value increase. Based on a status quo tax policy for 2021 and the anticipated assessment increases the estimated impact on the residential sector is an increasein tax burden of $5 million or 1.74% shifted to the class from the other classes. This shift is anticipated to occur in each year of the four year assessment cycle. It is important to note that these values are still preliminary and are subject to change until finalized by MPAC in later 2020

As noted above in Table 2, eliminating the subclass discounts could mitigate a portion of the anticipated shift to the residential class. The subclass discounts at 0% would mitigate the residential class impacts for 2021 by approximately $1 million of an anticipated $5 million increase (2021 anticipated assessments based on 2020 levy).

Councillor Information Request 2 – Provide information respecting the effects that lowering the industrial tax ratio would have on the residential tax ratios.

As can be seen in report CSD 23-2020 – 2020 Property Tax Policy, Ratios and Rates, any reduction to the industrial ratio would increase the tax burden experienced by the residential tax class as well as all other tax classes. Being that the residential tax class pays the largest potion of the Regional tax levy, a decrease in the industrial ratio would result in the residential class incurring the largest share of the impact. Staff reviewed a scenario in CSD 23-2020 that reduced the industrial tax ratio however this decrease was not supported by either Regional staff or the Area Treasurers as a result of the anticipated impacts as a result of the 2021 re-assessment cycle on the residential class. It should also be noted that for 2020, the industrial class benefits from a shift away from the class of 0.5%.

Next Steps

Should Council elect to amend the previously submitted industrial/commercial vacant/excess land subclass program revisions to the Province for 2021 and future taxation years, then a resolution to that effect would need to be submitted before August 1, 2020 to the Province to ensure the program revision can be adopted in Provincial legislation for 2021. Based on information provided by the Province, it has been noted that the Region would not be required to re-engage the business sector of Niagara to the same extent as previously conducted in 2018. It would however, be prudent to provide an update to business through traditional communication methods utilized by the Region.

Alternatives Reviewed

While this report has been prepared for information only, Council may elect to adopt the scenario noted above that would decrease the industrial/commercial vacant/excess land subclass discounts to 0% starting 2021. Any changes that Council may adopt as a result of any of the analysis would not have an impact on 2020 tax policy. As noted in report CSD 23-2020, all 2020 tax policy decisions should be finalized in April in order to allow sufficient time for the Area Municipalities to complete tax billing in June. Therefore, any change to the subclass discounts submitted and approved by the Province would impact the 2021 tax policy.

Relationship to Council Strategic Priorities

Decisions related to tax policy is aligned to Sustainable and Engaging Government.

Other Pertinent Reports

CSD 3-2019 Vacancy Program Revisions Submission to Ministry of Finance
CSD 23-2020 2020 Property Tax Policy, Ratios and Rates

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Appendices

None.