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December 22, 2017

Dear Municipal Treasurer / Clerk-Treasurer:

I am writing to advise you of a number of important decisions for the 2018 taxation year related to municipal flexibility in setting property tax policy and education property tax rates.

Please note that all of these decisions will be reflected in the Online Property Tax Analysis (OPTA) system to support municipal property tax analysis and policy implementation.

The Province will notify municipalities when regulations implementing the property tax policy decisions are in place.

Business Vacancy Rebate and Reduction Programs

As announced in the *2016 Budget*, the government is providing municipalities with the flexibility to refine their business vacancy programs to better reflect local circumstances and respond to concerns regarding the appropriateness of the lower tax level provided through these programs and the unintended implications this may have for local economies. The regulation implementing changes to the vacancy programs requested by municipalities in 2017 has been enacted and is available on the Government of Ontario's e-laws website at www.ontario.ca/laws.

Municipalities will continue to have broad flexibility to modify their business vacancy rebate and reduction programs. The new deadlines to submit a notification to the Minister for changes effective for 2018 are **March 1, 2018** and **August 1, 2018**.

The government also announced through the *2017 Ontario Economic Outlook and Fiscal Review* that it will be reviewing approaches related to the education property tax portion of these programs in consultation with municipalities and the business community. The objective will be to align the Province's approach with that of municipalities, while ensuring there is greater consistency across the province.

Multi-Residential Property Tax Review

The *2016 Economic Outlook and Fiscal Review* announced that the Province was undertaking a review of the property taxation of multi-residential properties in response to concerns about the significantly higher property tax burden on multi-residential apartment buildings and its potential implications for housing affordability in the rental market.

Over the past year, the Province has been working in consultation with municipalities as well as other affected stakeholders, including tenants and apartment building owners, to examine issues related to the tax inequity between multi-residential and other residential properties.

As a result of the review, the government is maintaining the freeze on the municipal property tax burden for existing multi-residential properties in communities where these taxes are high. This means, in municipalities where the multi-residential tax ratio is greater than 2.0, a full levy restriction will be implemented and reassessment related shifts onto the multi-residential class will be prevented.

Small-Scale Value-Added and Commercial Activities on Farms

The *2016 Economic Outlook and Fiscal Review* also announced that starting in 2018 municipalities will have the option to reduce the tax rate on qualifying value-added activities that occur on farms as part of the farming business. Optional new subclasses of the industrial and commercial classes will be created to allow the municipal tax rate to be reduced by 75% for the first \$50,000 of assessment related to qualifying activities.

In order to ensure consistency across the Province, the education property tax rate will be a reduction of 75% of the business education tax (BET) target rate and will apply to all qualifying properties. This reflects the Province's commitment to providing sustainable property tax treatment to farmers who engage in small-scale processing or retail activities as a direct extension of their farming business.

Regulations to establish the new subclasses and authorize the setting of municipal and education tax rates will be available in early 2018, at which time the Municipal Property Assessment Corporation (MPAC) will begin to identify eligible properties and issue amended assessment notices for affected properties.

Property Tax Treatment of Vacant Residential Land

As part of Ontario's Fair Housing Plan, the government committed to reviewing the property tax treatment of vacant residential land that has been approved for new housing. The purpose of the review was to consider providing municipalities with additional tools to encourage the development of these lands. This review responded to concerns expressed to the Province that vacant residential land was being held for speculative purposes.

As part of the review, the Province has consulted with a number of municipalities. Based on the feedback received, the Province will be providing municipalities with the flexibility to levy a higher property tax rate on vacant land approved for residential development. Municipalities that are interested in this option should notify the Minister of Finance of their desire to utilize this flexibility, together with details of:

- their proposed approach;
- a council resolution; and
- a plan for consulting with the residential development sector.

For the 2018 tax year, municipalities should submit their notification in writing to the Minister of Finance by March 1, 2018.

Municipal Property Tax Flexibility

Property Tax Rate Calculation Adjustment

In response to municipal requests, a technical adjustment to the provincially prescribed notional property tax rate calculation was announced in the *2016 Ontario Budget* and recommitted to in the *2017 Ontario Budget*. This adjustment ensures that when calculating notional tax rates, municipalities and the Province are able to address any unintended effects due to specific in-year property assessment changes, such as assessment appeal losses.

Municipalities continue to have the option to adjust the year-end assessment used in the notional property tax rate calculation to offset changes resulting from certain in-year reassessment related changes, including:

- Assessment Review Board decisions;
- Request for Reconsiderations;
- Post Roll Amended Notices; and
- Special Advisory Notices.

Applying the technical adjustment is an annual municipal decision and requires a council resolution.

Adoption of the adjustment is implemented by selecting the adjustment through the OPTA system. Municipalities that do not use OPTA are required to send information including their calculations supporting their adjustment to the Ministry via email to info.propertytax@ontario.ca.

To ensure the ongoing integrity of education property tax revenues, the property tax rate calculation adjustment is also applied to education property tax rates.

Tax Ratio Flexibility

Municipalities will continue to be provided with tax ratio flexibility to avoid most tax shifts that may occur between property classes as a result of phased-in reassessment impacts. For the 2018 tax year, municipalities that tax multi-residential properties at more than double the rate of residential properties will continue to have tax ratio flexibility, but will not be able to increase the multi-residential tax ratio. These municipalities will still be able to choose whether to use tax flexibility in response to reassessment-related tax shifts among other property classes.

Modified Levy Restriction

Municipalities with property classes subject to the levy restriction will continue to have the flexibility to apply a municipal tax increase to those classes of up to 50 per cent of any increase applied to the residential class. For instance, a municipality levying a 2 per cent increase in residential taxes could raise taxes on any restricted class by up to 1 per cent. As noted above,

a full levy restriction will apply to multi-residential properties with a tax ratio greater than 2.0 in 2018.

Education Property Tax Rates

To assist municipalities with their budget planning, draft education property tax rates for 2018 are attached. The province-wide residential education property tax rate and the target and ceiling business education tax (BET) rates are summarized in the following table. The Province will notify municipalities when these rates have been set in regulation.

	2017 Rates	2018 Rates
Residential	0.179%	0.170%
BET Target	1.14%	1.09%
Commercial BET Ceiling	1.39%	1.34%
Industrial BET Ceiling	1.39%	1.34%

If you have any questions related to these decisions, please contact Chris Broughton, Director of the Property Tax Policy Branch at Chris.Broughton@ontario.ca or 416-314-3801.

We look forward to continuing to work in partnership with municipalities to ensure stability for Ontario's property tax system, while providing flexibility for municipalities in addressing their local circumstances.

Sincerely,



Allan Doheny
Assistant Deputy Minister
Provincial Local Finance Division