

The Corporation of the City of Kawartha Lakes

Committee of the Whole Report

Report Number CORP2019-026

Meeting Date: October 8, 2019

Title: Farm Tax Ratio Review

Description: Follow-up to April 23rd, 2019, CR2019-293, directing staff to examine the impacts of adjusting the Farm tax ratio and the impacts of different incremental reductions of Farm tax ratios.

Ward Number: All

Author and Title: Linda Liotti, Manager, Revenue and Taxation

Recommendation(s):

That Report CORP2019-026, Farm Tax Ratio Review be received.

Department Head: _____

Financial/Legal/HR/Other: _____

Chief Administrative Officer: _____

Background:

At the Council Meeting of April 23, 2019, Council adopted the following resolution:

CR2019-293

That staff be directed to examine the impacts of adjusting the Farm tax ratio and the impacts of different incremental reductions of Farm tax ratios with a report to Council by end of Q3 2019.

This report will provide the outcome of the examination requested.

Rationale:

In 1998 the Province of Ontario introduced a series of tax reforms which caused significant changes to the assessment of property and taxation in Ontario.

This reform brought the entire Province on a common assessment base year. Along with the introduction of the new “current value assessment”, a host of other factors affecting the tax treatment of all properties across the province were introduced. Included in the reforms were changes to the tax treatment of Farm Property.

Prior to 1998, the Provincial Government’s Farm Tax Rebate Program required that qualifying farmers submit an application to receive a reimbursement of 75% of the farm property taxes paid. The purpose of the rebate was to “help to ensure a viable agricultural industry across Ontario by preserving and maintaining land in active agricultural production”.

As part of the realignment of services in 1998, the Farm Tax Rebate Program was eliminated by the Province. To help offset any financial difficulties that eligible farm property owners may experience, the Provincial Government introduced the Farm Tax Class and the tax ratio of 25%.

With the implementation of the Farm tax ratio, the cost of providing the rebate at the municipal level represented by a tax ratio of 25% was distributed amongst primarily the residential class in rural and small urban centres where farmland is most prevalent. It was understood that large urban centres with little or no farmland were no longer participating in the program to mitigate the property tax relief previously provided to farmers.

Kawartha Lakes Tax Ratios

	Lower Limit	Upper Limit	Kawartha Lakes
Property Class Range			
Residential	1.00		1.00000
Multi-Residential	1.00	1.10	1.95682
New Multi-Residential	1.00	1.10	1.00000
Commercial / Office / Shopping Centre	0.60	1.10	1.37931
Industrial / Large Industrial	0.60	1.10	1.34645
Pipeline	0.60	0.70	2.00131
Farm	up to 0.25		0.25
Managed Forests	0.25		0.25

The chart above indicates the 25% ratio is the maximum that can be applied to the Farm tax class, within the prescribed range of fairness; however, the ratio may be lowered at the municipality's discretion.

As per the noted Council Resolution, staff has examined the impact of incremental reductions in the Farm tax ratio with the findings summarized in the chart below.

Farm Tax Ratio - Impact of Incremental Reduction			
Residential Increase			
Farmland Tax Ratio	Increase of tax \$ to Residential Tax Class	Impact to Taxes based Average Residential Home value ¹	
		% increase (rounded)	\$ increase (rounded)
0.25	Not applicable - Current State		
0.24	\$80,545	0.1%	\$1.74
0.23	\$161,239	0.2%	\$3.51
0.22	\$242,082	0.3%	\$5.25
0.21	\$323,075	0.4%	\$7.02
0.20	\$404,218	0.5%	\$8.79
Farmland Decrease			
Farmland Tax Ratio	Decrease of tax \$ to FarmTax Class	Impact to Taxes based on \$268,000 farmland assessed value ²	
		% decrease (rounded)	\$ decrease (rounded)
0.25	Not applicable - Current State		
0.24	\$80,545	0.02%	\$0.44
0.23	\$161,239	0.05%	\$0.88
0.22	\$242,082	0.07%	\$1.31
0.21	\$323,075	0.09%	\$1.76
0.20	\$404,218	0.12%	\$2.20

¹ The average house was valued at \$268,000 in the 2019 tax year, paying approximately \$2,728.68 in Municipal Taxes
² Using \$268,000 farmland assessed value in the 2019 tax year for comparative purposes

DATA IS BASED ON 2019 ASSESSMENT ROLL

The below chart highlights how a farm property, with a current assessed value of \$268,000 taxed at the farm full taxable rate, would be impacted for a tax perspective based on the incremental reduction of the farm tax ratio:

Farm Tax Ratio	Taxes Levied
0.25	\$ 682.17
0.24	\$ 681.73
0.23	\$ 681.29
0.22	\$ 680.86
0.21	\$ 680.41
0.20	\$ 679.97

Council must carefully contemplate a number of factors when reviewing and considering changing the Farm Tax Ratio for the municipality.

The property tax system in Ontario is based on the assessed market value of the property in question, not the ability to pay or services consumed. The underlying

principle of the assessment-based system is that the amount of property taxation paid is indicative of the assessed values of properties relative to all others.

In the 2016 Assessment Update, for 2017 to 2020 taxation years, waterfront properties saw significant increases in valuations, similar to farm properties. Municipalities did not have tax policy tools available to compensate waterfront property owners for bearing a greater proportion of the municipal tax levy. This group of property owners did not receive tax relief because the assessments reflected defensible market values.

Ideally, tax ratios are examined in an assessment update year such that the impact of market increases within each of the property classes can be taken in consideration.

Further, as the farm tax ratio is already within the appropriate range of fairness, it is a tax policy best practice to review the tax ratios that fall outside of the prescribed ranges of fairness and take fiscal steps, where possible, to move these closer or within the prescribed range. This direction is supported by the legislative changes introduced in the *Continued Protection for Property Taxpayers Act, 2000 (Bill 140)*, whereby, Municipalities could set their tax ratios so as to maintain the transition ratios, move them toward the range of fairness or vary tax ratios within ranges of fairness.

As indicated in the charts above, a reduction in the Farm Tax Ratio would result in a shift of the property tax burden to the residential property tax class, which comprises approximately 87 per cent of the tax revenue within the Municipality. Shifting this additional tax burden to the residential property class could disproportionately impact low-income earners and people living on fixed incomes. Many of these people may already face financial challenges due to increases in household expenses such as increasing in electricity, water and sewer charges.

To date, within the Eastern Ontario Wardens Caucus (EOWC), there have been two counties that have lowered the Farm tax ratio:

- County of Prince Edward - 0.2319
- County of Lennox and Addington - 0.23

It is important to note that in 2016, the Eastern Ontario County Treasurers drafted a position paper (Appendix A) on farm tax ratios for municipalities in Eastern Ontario. The group unanimously recommended that the farm tax ratio not be lowered, noting that the MPAC farm property assessments are fair and equitable. The treasurers also pointed out that changes in the market have provided farm property owners with large capital gains on their properties.

Other Alternatives Considered:

The 2020 taxation year represents the last tax year for the 2016 Assessment Update where current value assessments will be at their full value. Implementing a reduction of the Farm tax ratio for the said tax year would disproportionately affect the residential tax burden, which is not ideal.

Council may wish to defer consideration of the reduction of the Farm Tax Ratio impact until the 2019 Assessment Update (2021 to 2024 taxation years). In this scenario, the tax burden shifted to the residential property class would be shared proportionately over the 4 year period in the cycle. Also, there may be value to consider a review of other to tax ratios to incentivize investment that may align with the Municipality's strategic plan.

Financial/Operation Impacts:

A change to Farm tax ratio will not impact the amount of taxes levied by the Municipality, however, will shift the tax burden from the Farm Tax Class to the Residential Tax Class, as all other classes are already above the Ministry of Finance prescribed ranges of fairness.

Relationship of Recommendation(s) To The 2016-2019 Strategic Plan:

Strategic Enabler – Responsible Fiscal Resource Management

Consultations:

Ontario Federation of Agriculture (OFA)

Attachments:

Appendix A – Eastern Ontario County Treasurers - Farm Tax Ratio - White Paper



**Appendix A - Eastern
Ontario County Treas**

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