



Committee of the Whole Report

Report Number: CORP2022-007
Meeting Date: April 5, 2022
Title: 2022 Tax Policy Decisions
Author and Title: Linda Liotti, Manager, Revenue and Taxation

Recommendation(s):

That Report **CORP2022-007, 2022 Tax Policy Decisions**, be received; and

That optional property classes for the 2022 tax year are not adopted; and

That the tax rate reduction for vacant and excess land in the commercial and industrial class be set as 30% and 35% respectively for 2022; and

That the tax rate reduction for First Class Undeveloped Farm Land be set at 45% for 2022; and

That the capping and threshold parameters be established as follows:

	Commercial	Industrial
Annualized Tax Limit	10%	10%
Prior Year's CVA Tax Limit	10%	10%
CVA Tax Threshold for Protected Properties (Increases) (\$0 to \$500)	500	500
CVA Tax Threshold for Clawed Back Properties (Decreases) (\$0 to \$500)	500	500
Properties that were at CVA Tax in 2021 or that would cross over CVA Tax in 2022 are to be excluded from capping.	Yes	Yes

Department Head: _____

Financial/Legal/HR/Other: _____

Chief Administrative Officer: _____

That the decrease claw back parameters for 2022 be set at 0% for multi-residential, commercial and industrial; and

That Council approve the 2022 tax ratios as outlined in Appendix A to report CORP2022-007; and

That these recommendations be brought forward to Council for consideration at the next regular Council Meeting.

Background:

This report is intended to establish tax policy for 2022.

The *Municipal Act, 2001* and the *Assessment Act* provide Council with the authority to make decisions concerning property taxation.

These decisions include:

1. adoption of optional property classes;
2. tax rate reductions for commercial and industrial properties where the land is in the property subclass of vacant land, or excess land;
3. capping and threshold parameters for properties in the multi-residential, commercial, and industrial property classes;
4. limiting the decrease for commercial, industrial, and multi-residential property classes subject to “claw back” provisions; and
5. revising tax ratios to mitigate tax shifts between the broad property classifications.

Also, on March 29, 2020, Council adopted the following resolution relating to the Streetlights Special Rate Area tax levy:
CW2020-065

That street lights be moved from the Special Rate Area Tax Levy to the General Rate Tax Levy; and

That the Special Rate Area Tax Levy for street lights be phased into the General Rate Tax Levy over the next four-year assessment period.

Carried

Rationale:

Assessment values were last updated by MPAC with a valuation date of January 1, 2016. These assessments were implemented on January 1, 2017 and were to be used to levy taxes for the 2017 to 2020 taxation years. As a result of the COVID-19 pandemic, the Province of Ontario announced in March 2020 that the Province-wide Assessment Update scheduled to take effect January 1, 2021 was being postponed. As part of the Ontario Government’s Ontario Economic Outlook and Fiscal Review on November 4, the Minister of Finance announced the Province’s decision to once again postpone a province-wide property assessment update due to the pandemic. Property assessments for the 2022 and 2023 property tax years will continue to be based on January 1, 2016 current values.

In alignment with Council's resolution CW2020-065, the Special Rate Area Tax Levy for street lights will continue to be calculated as it was in 2021 until the Assessment Update is implemented.

Tax policy changes have implications on the final tax bill of each property. Provincial regulations may dictate some of the shifts in taxation and direction provided by Council also has an impact.

Below are recent Provincial tax policy changes that were considered in recommendations made for this report:

1. Small-Scale On-Farm Business Subclasses:

On May 3, 2018, the Government of Ontario established two new optional subclasses for small-scale on-farm businesses to promote and support local farms across Ontario. The commercial and industrial subclasses were created to provide a tax rate that is 75% lower than the existing commercial and industrial tax rates. The reduced tax rate applies to the first \$50,000 of eligible commercial or industrial assessment. To qualify, the commercial and/or industrial facility must be an extension of the farming operation. In addition, 51% of the facility must be used to sell, process or manufacture something from a product produced on the farmland. If the commercial and/or industrial operation has an assessed value equal to or greater than \$1M, it is not eligible for the small-scale on-farm business subclass.

Effective 2022, the Ministry of Finance expanded the existing Small-Scale On-Farm Business. In addition to the first Subclass, a 75% tax rate reduction for the first \$50,000 of eligible commercial or industrial assessment, municipalities are now permitted to adopt a second Subclass, a 75% tax rate reduction for the next \$50,000 in eligible assessments for these same properties.

In Kawartha Lakes, there continue to be no properties eligible for this subclass.

2. Small Business Tax Class:

As part of the 2020-21 Provincial Budget delivered on November 5, 2020, the Province provided municipalities with the ability to establish a new Small Business tax sub-class.

In May 2021, Report CORP2021-010 2021 Tax Policy Decisions, provided Council with a brief update on this optional property tax class. At that time, regulations under the Municipal Act, 2001 and Assessment Act, 1990 related to this new measure had not been released by the Province. Subsequently,

amendments to Municipal Act, 2001 regulation O. Reg 73/03 and Assessment Act, 1990 regulation O. Reg 282/98 have been enacted.

Staff has been reviewing the requirements of the program and plan to report back to Council with our analysis and recommendation in advance of the 2023 Taxation year.

Through the initial review staff has identified the following key program requirements:

- The program may only apply to properties in the commercial or industrial property classes
- Large industrial, parking lot and excess / vacant land property classes are excluded
- Must be revenue neutral (no additional taxes)
- Municipalities can specify that the subclass only applies to a portion of the municipality
- Requires an annual By-law
- By-law can stipulate that landlords must pass reduction on to tenants:
 - Public listing of eligible properties is required
 - Discounts can range from 5% to 35%

To utilize this new tax policy tool, there are local considerations that will need to be addressed. These include:

- Requirement of municipality to define small business eligibility and source data accordingly
- The implementation costs and administrative burden
 - Requirement of a Program Administrator be appointed to administer the program to monitoring ongoing eligibility, updating the registry of eligible properties and notifying MPAC when properties become eligible or ineligible for the subclass
 - Requirement to appoint an Appellate Authority to hear any appeals of the Program Administrator's eligibility decisions
- The impact of any discount applied to qualifying properties will be shifted to other Commercial and/or Industrial properties

While some negatively impacted small businesses may require assistance to deal with the impacts of the COVID-19 pandemic, creating a new property subclass takes time to implement as the effects will extend beyond the current financial situation. It is critical that adoption of this subclass be fully analyzed as it could potentially create inequities and adversely affect other businesses within the municipality. This approach is consistent with other municipalities in the

Province as only two large single tier municipalities have adopted this subclass for the 2022 taxation year.

All recommendations noted below are consistent with the prior taxation year.

1. Optional Property Classes

The Assessment Act provides for the implementation of optional property classes. This allows Council to apply different tax ratios to different property classes within the “main” property classes of commercial and industrial. Optional property classes include:

- Shopping Centre (included in the Commercial Broad Class)
- Parking Lots (included in the Commercial Broad Class)
- Office Building (included in the Commercial Broad Class)
- Large Industrial (included in the Industrial Broad Class)
- New Multi-Residential (included in the Multi Residential Broad Class)

Different tax ratios may be implemented if optional property classes are adopted. The tax ratios in these situations must fall within the legislated ranges of fairness.

The City of Kawartha Lakes has not adopted optional property classes ensuring that all properties within a defined “broader” property class are taxed at the same level.

Recommendation 1:

That Council does not adopt optional property classes for the 2022 tax year.

2. Tax Rate Reduction Factors

Subsection 313(1) of the Municipal Act, 2001 provides that tax rates levied for property in the commercial and industrial classes that are not classed as “occupied” be reduced.

Recommendation 2:

The tax rate reduction by-law for 2022 provide for reductions as follows:

Commercial:	30%
Industrial:	35%
First Class Undeveloped Farm Land:	45%

3. 2022 Capping and Threshold Parameters

The tools allowing for the movement of properties out of the capping calculation were updated in 2016, and implemented in 2017. The updated limits are reflected below:

- 5 - 10% of prior year capped taxes, or
- 0 - 10% of the prior year CVA taxes, and

- If the property is within \$500 of paying CVA taxes (either capped or claw backed).

Staff is recommending Council continue approving the maximum options available to move as many properties to CVA tax as possible once again this year.

Recommendation 3:

The City of Kawartha Lakes implements the capping and threshold parameters as shown above.

4. Claw back

Each year a by-law is required to provide the percentage of the tax decrease that is retained by the municipality (clawed back) in order to fund the properties that receive capping protection. The purpose of this by-law is to allow staff to apply these provisions to subsequent adjustments to the tax roll after the final tax bills are calculated.

Recommendation 4:

As in 2021, it is recommended that the decrease claw back parameters be established at 0% for multi-residential, commercial and industrial properties.

5. Tax Ratios

Section 308 of the Municipal Act, 2001 requires municipalities to pass a by-law establishing tax ratios for each taxation year. Municipalities have the opportunity to decrease tax ratios, moving the ratios closer to the “range of fairness”.

Property Class	Range		Kawartha Lakes
	Lower Limit	Upper Limit	
Residential	1.00		1.00
Multi-Residential	1.00	1.10	1.956823
New Multi-Residential	1.00	1.10	1.00
Commercial / Office / Shopping Centre	0.60	1.10	1.379305
Industrial / Large Industrial	0.60	1.10	1.346448
Pipeline	0.60	0.70	2.001314
Farm	up to 0.25		0.25
Managed Forests	0.25		0.25

Recommendation 5:

The City of Kawartha Lakes establishes tax ratios as outlined in Appendix A.

Other Alternatives Considered:

N/A

Alignment to Strategic Priorities

This report aligns with the strategic priority of Good Government.

Operation Impacts:

There are no financial implications for the municipality with the recommendations.

Attachments:

Appendix A – 2022 Tax Ratios



Appendix A to
Report File No, CORP.

Department Head email: jstover@kawarthalakes.ca

Department Head: Jennifer Stover