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Region of Peel
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REPORT
Regional Council

DATE: March 2, 2011

REPORT TITLE: **2011 TAX CAPPING POLICY**

FROM: Norma Trim, Chief Financial Officer and Commissioner of Corporate Services

RECOMMENDATION

That the necessary by-law be presented for enactment authorizing the Region of Peel to apply all of the optional tools for tax capping available to it under paragraphs 1, 2, 3 and 4 of subsection 329.1(1) of the *Municipal Act, 2001* (the *Act*);

And further, that the subject by-law authorize the exemption of a property from the application of Part IX of the Act (removal of properties from capping and clawbacks) as provided under Part II.1 of Ontario Regulation 73/03, as amended, for the calculation of the amount of property taxes for municipal and school purposes payable regarding commercial, industrial and multi-residential property classes for the 2011 taxation year.

REPORT HIGHLIGHTS

- Regional Council to pass a by-law each year, to apply one or more of the optional tools in subsection 329.1(1) of the *Act* and Part II.1 of O. Reg. 73/03 as amended, in calculating the amount of property taxes for properties in the commercial, industrial and multi-residential (capped) property classes.
- Regional Council adopted the use of all the optional tools available under subsection 329.1(1) of the *Act* and Part II.1 of O. Reg. 73/03 in 2010.
- The Joint Regional and Area Municipal Tax Policy Team recommends the continued application of all optional tools under subsection 329.1(1) of the *Act* and Part II.1 of O. Reg. 73/03 as a fair means of moving properties in the capped property classes toward their full CVA tax levels.

DISCUSSION

1. Background

Since 1998, municipalities have been mandated to cap assessment related tax increases on properties in the commercial, industrial and multi-residential property classes (i.e. capped property classes). The capping protection was mandated at 10 per cent for 1998 and 5 per cent for each year from 1999 to 2004. At an annual 5 per cent cap level, the movement of properties in the capped property classes to full Current Value Assessment (CVA) based taxation had been very slow. In response to requests from the municipal sector, the provincial government introduced new optional tools in 2005 and 2009 that could be adopted by municipalities in order to move more properties to full CVA based taxation.

Regional Council has adopted all the optional tools under its disposal since 2005. A summary of the available optional tools is as follows:

Tools Available Under Subsection 329.1(1) of the *Act*
For the 2005-2010 tax years, Regional Council approved the use of the following tools under subsection 329.1(1) of the *Act* either on their own or in combination for each of the capped property classes:

1. Increase the annual cap (i.e. allowed tax increase) up from 5 per cent to a 10 per cent cap; and/or
2. Set an upper limit on annual increases at the greater of the amount calculated under 1 above or 5 per cent of the property's previous year's annualized CVA based tax; and/or
3. Establish up to a maximum $250 further tolerance for increasing (capped) properties or decreasing (clawback) properties above and beyond the increase or decrease resulting from the application of the above tools in order to move properties to full CVA based taxation.

Adoption of the above optional capping tools accomplished the goal of moving more properties towards CVA based taxation. However, this did not mean that once a property reached CVA based taxation it would continue to pay taxes based on its CVA. At each reassessment year, properties that experience tax increases above the level captured by the optional capping tools under subsection 329.1(1) of the *Act* once again were eligible to receive capping protection from the impact of reassessment. Conversely, properties that were paying tax based on their CVA in the prior year, but experienced tax decreases due to reassessment would have their decreases reduced (or clawed back) to fund the properties receiving capping protection in the reassessment year. Therefore in each reassessment year, the number of properties paying taxes based on their CVA would decrease while the number of capped or clawback properties would increase.

In response to municipal advocacy, the provincial government amended O. Reg. 73/03 to allow municipalities to annually exempt a property from the application of Part IX of the *Act* (capping and clawback provisions) for a taxation year. This would allow municipalities to tax properties in the capped property classes at their CVA levels for 2009 and future years.

Tools Available Under Part II.1 of O. Reg. 73/03
For the 2009 and 2010 tax years, Regional Council approved the use of the following additional options which are also recommended for application in 2011:

1. A property that reached CVA level taxes in the previous year is eligible to be removed from the capping program for the current taxation year.
2. A property that crosses over from being a capped property in the previous year to a clawback property in current year will be eligible to be removed from the capping program for the current taxation year.
3. A property that crosses over from being a clawback property in the previous year to a capped property in the current year will be eligible to be removed from the capping program for the current year taxation year.

The adoption of all the above capping tools available under subsection 329.1(1) of the *Act* and under Part II.1 of O. Reg. 73/03 in 2010 resulted in only 2.4 per cent of the properties receiving capping protection.

2. Findings

The preliminary analysis of using the optional capping tools in 2011 as recommended in this report indicates that approximately 1.9 per cent of the properties in the capped property classes will continue to receive capping protection. This represents an estimated 0.5 percentage point decrease over the 2010 level. The estimated number of properties in the capped property classes that are paying taxes at their CVA level would increase by 1 percentage point from 90 per cent to 91 per cent. The remaining 6.8 per cent of properties represent those that have their tax decreases clawed back to fund capped properties.

The final capping calculation for 2011 will be completed later this year (i.e. targeted for May) and will be the subject of a subsequent report. The Joint Regional and Area Municipal Tax Policy Team is in agreement that continuing to use all of the optional capping tools is the best strategy to moving all properties towards full CVA based taxation.

CONCLUSION

The Joint Regional and Area Tax Policy Team proposes that all the optional tools continue to be applied in 2011 as part of the capping plan for properties in the commercial, industrial and multi-residential property classes.

Norma Trim
Chief Financial Officer
and Commissioner of Corporate Services

Approved for Submission:

Janette Smith Acting for
D. Szwarc, Chief Administrative Officer

For further information regarding this report, please contact Dave Bingham at extension 4292 or via email at binghamd@peelregion.ca

Authored By: Jim Alpous

c. Legislative Services