

Administration

Office of the Regional Clerk

1815 Sir Isaac Brock Way, PO Box 1042, Thorold, ON L2V 4T7

Telephone: 905-685-4225 Toll-free: 1-800-263-7215 Fax: 905-687-4977

www.niagararegion.ca

October 27, 2021

CL 20-2021, October 21, 2021

CSC 10-2021, October 13, 2021

CSD 58-2021, October 13, 2021

LOCAL AREA MUNICIPALITIES

SENT ELECTRONICALLY

Additional Information Re: Optional Small Business Tax Subclass

CSD 58-2021

Regional Council, at its meeting held on October 21, 2021, passed the following recommendations of its Corporate Services Committee:

That Report CSD 58-2021, dated October 13, 2021, respecting Additional Information Re: Optional Small Business Tax Subclass, **BE RECEIVED** and **BE CIRCULATED** to Local Area Municipalities.

A copy of CSD 58-2021 is enclosed for your reference.

Yours truly,



Ann-Marie Norio

Regional Clerk

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CLK-C 2021-164

cc: R. Fleming, Senior Tax & Revenue Analyst
T. Harrison, Commissioner, Corporate Services/Treasurer
K. Beach, Executive Assistant to the Commissioner, Corporate Services/Treasurer

Subject: Additional Information Re: Optional Small Business Tax Subclass

Report to: Corporate Services Committee

Report date: Wednesday, October 13, 2021

Recommendations

1. That Report CSD 58-2021 respecting the Optional Small Business Tax Subclass **BE RECEIVED** as information; and
2. That a copy of Report CSD 58-2021 **BE CIRCULATED** to the Local Area Municipalities.

Key Facts

- The purpose of this report is to provide Committee with an update on the Optional Small Business Tax Subclass that the Province introduced as part of their 2020 Budget and to recommend that the Region not implement the new subclass.
- In February 2021, staff presented Committee with Report CSD 12-2021 – Optional Small Business Tax Subclass Overview which contained the following recommendation:
 - That staff **BE DIRECTED** to monitor the implementation of the Optional Small Business Tax Subclass for consideration in future taxation years starting in 2022.
- In addition to the February report, at the April 2021 Corporate Services Committee, direction for staff was provided as follows:
 - Consider implementation of a small business tax class.
- In May 2021, the Province released the Regulations for the subclass which provide greater insight into program specifics including the subclass reduction range, administrative requirements as well as implementation considerations.
- Region staff have participated in discussions with Area Treasurers, other municipal organizations and the Municipal Property Assessment Corporation (MPAC) and solicited input through a survey from the Area Treasurers during August 2021, after the release of the Regulations for additional input. Based on the responses from the survey, there was limited desire to pursue the subclass at this time noting many of the challenges that were originally identified in Report CSD 12-2021.

- Based on the challenges that are present and a lack of a clear policy objective for implementation, staff are not recommending that the optional small business subclass be adopted for the Region.

Financial Considerations

Similar to other tax policy decisions, implementation of the small business subclass would not impact the tax revenue generated by the Region, it would however, impact the tax burden experienced by other tax classes most notably Residential which represents 80% of the unweighted assessment base for the Region. Inter-municipal shifts on a Regional basis would also occur as a result of variations in the tax bases across Area Municipalities. These tax shifts may be further exaggerated if different eligibility criteria were to be established for different municipalities across the Region.

If it were Council's direction to implement the subclass, there would be additional administrative costs incurred by the Region or Area Municipalities as required to implement and maintain the subclass depending on any program framework that would need to be established. Expenditures associated with this remain unknown and would likely vary depending on the program administration requirements including Local or Regional administrator, variations in program criteria and level of support from the community which may impact appeals. At a minimum, if the program were to be adopted, the Region would incur estimated one-time implementation expenditures of \$15,000 for consulting and program development. Depending on Region responsibility for administration of the program, an additional annual expenditure of approximately \$100,000 for staffing and administrative resources may be incurred if the subclass administration resides with the Region. Should the Region adopt policy objectives that are different for each Area Municipality, it may be more advantageous for the Area Municipalities to administer independently which may require additional resources at the local level.

Analysis

As announced in the 2020 Ontario Budget, the Province has provided municipalities with the ability to implement an optional small business subclass. In February 2021, staff prepared Report CSD 12-2021 which provided an overview of the subclass to Council and identified some of the opportunities and challenges that may exist with the new subclass.

Subsequent to that report, in May 2021, the Province released amendments to O. Reg. 282/98 under the Assessment Act and O. Reg. 73/03 under the Municipal Act, 2001, which implemented the subclass and provided further details, including requirements for municipal by-laws, administration of the subclass and potential for provincial matching through education property tax reductions. Staff also attended a webinar hosted by the Toronto Region Board of Trade and have engaged the Area Treasurers for input via a survey, all of which has been summarized below for Council's information.

Overview of Ontario Regulations

As identified in the regulations, municipalities that choose to implement the subclass must consider and enact the following:

- The decision to adopt the subclass by Regional Council including the passing of a Regional by-law.
- Identify if the business subclass tax reduction is to be applied to the commercial and/or industrial property tax classes.
- The reduction percentage; which can range from 0- 35% of the municipal tax rate for the property class.
- Requirements that a property must meet to be included in the subclass.
- Appointing Program Administrator(s) to administer the program, including approving properties for inclusion in the subclass, notifying property owners of decisions and reviewing requests for reconsideration related to a property's eligibility for inclusion in the subclass.
- Appointment of Appellate Authority (or Appellate Authorities) to hear any appeals of the Program Administrator's eligibility decisions.

Through the Regulations it has also been noted that municipalities will have the ability to require landlords to pass the tax reduction to tenants as a condition of eligibility. While this remains an option, staff feel that the enforcement of this would be challenging as it may require staff to engage tenants and landlords which is not typical in the taxation process. One Ontario municipality is considering publishing the addresses of landlords in receipt of the tax reduction in order to place an onus on tenants to pursue the flow through of the tax reduction.

The Province has also noted that there is a requirement to demonstrate how the municipality has engaged the business community before implementing the class which would result in increased lead time for implementation. This process is also not anticipated to provide definitive eligibility guidelines as there is likely much disparity

across the Region in terms of what may be considered a small business. A small business definition would need to be developed that achieves a policy objective for which staff would need to engage appropriate stakeholders to ensure the policy objective is achieved through the chosen definition.

As noted above, municipalities are responsible for establishing detailed eligibility criteria for the optional small business subclass. This would require the Area Municipality or Region to develop and administer a process to identify or approve eligible properties for inclusion in this subclass. Through the appointment of a Program Administrator, Area Municipal or Regional staff would identify qualifying properties classified in the commercial and/or industrial property classes that meet the eligibility criteria. This could be done either through an application-based process or through a criteria-based methodology. Properties approved for inclusion in the subclass by the Program Administrator must be listed in a publicly accessible registry (details of the registry requirements are found in the Municipal Checklist attached as Appendix 1 to Report CSD 58-2021). The Program Administrator would also be required to establish a process where an owner may make a request for reconsideration.

Municipalities that adopt the subclass are also required to appoint a staff member to act as an Area Municipal or Regional Appellate Authority to hear appeals regarding whether or not a property should be included in the subclass. Appeals of assessed value would continue to be directed to the Assessment Review Board.

Based on the additional information that has been included in the Regulations, staff note that many of the challenges that were expressed through Report CSD 12-2021 are still present, including:

- Determining subclass eligibility across Area Municipalities while considering variations in the local priorities, policy objectives and property characteristics.
- Challenge of ensuring tax benefits are passed on to tenants despite the ability for municipalities to make it mandatory through a by-law.
- Inconsistency in eligibility criteria across Area Municipalities for businesses with multiple locations in the Region.
- Tax shifts onto other properties not included in the subclass and the financial implications, business impacts and ability to pay of other residential, commercial and industrial properties not afforded the discount.

At the time of writing this report, MPAC has also released a draft white paper on the subclass outlining MPAC's potential involvement or assistance with implementation and

maintenance of the subclass. In the draft white paper, MPAC also noted some of the challenges previously described as well as other implementation considerations that would need to be explored. A section of MPAC's draft paper has been included as Appendix 2 to Report CSD 58-2021. In the section, MPAC has noted some of the policy objectives that this subclass may assist with achieving including:

- Nurture local small business development in one or more sectors of the economy.
- Support Downtown and Main Streets.
- Nurture the development of Innovation Districts, Creativity Zones or Business Parks.
- Support Business Improvement Areas (BIAs).
- Mitigate the impact of shifts in property values between districts for small businesses.
- Mitigate the impact of widespread revenues losses due to circumstances beyond businesses' control.

Overview of Toronto Region Board of Trade Webinar

On August 11, 2021, Regional finance staff participated in a small business subclass webinar hosted by the Toronto Region Board of Trade. In attendance at this meeting were finance and economic development representatives from most Ontario Regions as well as the City of Toronto. The webinar was also attended by Municipal Finance Officer Association (MFOA), Association of Municipalities of Ontario (AMO), and business sector representatives.

Much of the comments that staff heard from their municipal finance counterparts aligned with the commentary provided by Regional staff and Area Treasurers and focussed heavily on the increased administrative burden that the subclass would have on their operations especially given the perceived limited benefits that the subclass would generate. Similar comments were also heard from MFOA and AMO representatives. The economic development staff that were in attendance also expressed lack of clarity around the intent of the program and long-term goals especially since the subclass is not intended to be a COVID-19 relief program but a long-term policy decision. Many economic development staff also noted that there may be other opportunities to assist small businesses in ways that are not through tax policy tools including grants or other non-financial assistance (for example, local business registries). The business sector representatives also expressed that their association did not believe it was fair for businesses that would not qualify for the subclass to subsidize the reduction for

businesses that do qualify. They also noted that inequalities in subclass eligibility may also result in businesses in direct competition with each other being treated differently for property taxation purposes despite being relatively similar in operations.

Through the discussion held at the webinar, only one municipality that was in attendance has initiated the implementation of the subclass, being the City of Toronto. Staff note though that at the time of writing this report, no final decision has been made by the City on implementation. Staff also note that through discussion at a prior Ontario Regional and Single-Tier Treasurers meeting, the City of Ottawa had also expressed a desire to explore implementing the subclass.

Overview of Local Area Treasurers Discussions and Survey

Since the introduction of the small business subclass as part of the 2020 Ontario budget, there has been reoccurring discussions regarding the subclass at the Area Treasurers meetings between Regional staff and Area Treasurers. In August, the Region distributed a survey to the Area Treasurers to formalize their comments. The results of the survey, which are reflective of the Area Treasurers opinions only, can be summarized as follows:

- 11 of 12 municipalities completed and returned the survey to the Region.
- 9 of the 11 municipalities were not interested in adopting the new small business subclass with only Welland and Lincoln staff expressing interest.
- Of the 9 municipalities not interested, the following concerns were identified:
 - Potential for inter-class and inter-municipal tax shifts;
 - Lack of fairness in providing relief to only a few businesses that may be eligible despite financial difficulties being experienced by many as a result of COVID-19;
 - Increased administrative challenges including increased levy requirements for program administration;
 - Potential for limited benefit for their municipality;
 - Uncertainty around long-term impacts or objectives of the subclass; and
 - Potential for limited correlation between an eligible small business and their ability to afford property taxes.
- 2 of the 9 municipalities not interested expressed a desire to revisit the subclass in the future.
- For the 2 municipalities that were interested they noted that the following conditions or recommendation need to be in place or considered to proceed:

- Relief should be targeted to commercial only or both commercial and industrial;
- Administration of the subclass should be the responsibility of the Region and not the Area Municipalities;
- Subclass eligibility should be application based; and
- Subclass eligibility could be based on number of employees and/or annual revenue.
- Policy objective work would need to be established through further consultation.

Recommendation

Based on staff research and the above feedback, Regional finance staff are not in support of implementing the subclass. The regional inequalities, tax impacts on remaining property owners, added administrative burden including additional annual expenditures and lack of clear policy objectives are the main considerations for this recommendation.

Alternatives Reviewed

1. Council could direct staff to initiate the implementation process for this new subclass for the 2022 taxation year. If so, staff will need to consider:
 - The checklist requirements as established by the Province which are further detailed on Page 5 of Appendix 1 to Report CSD 58-2021. As a result of the anticipated lead time necessary for implementation and to ensure the Region fully explores the requirements as outlined in the Province's checklist (which include: engaging the business community, designing the program, passing a by-law and assessing impacts)
 - Impact on 2022 budget. Implementation in advance of the 2022 property taxation year would not be possible without additional direct financial impact to the Region and Area Municipalities. Implementation after a roll return for a taxation year would also result in in-year tax write-offs for which the Region and Area Municipalities would need to budget. MPAC's draft white paper has also identified other items that staff would need to explore before implementation in order to ensure the properties are accurately reflected on the tax roll each year.
 - Subclass should be implemented on a Region-wide basis rather than for only the Area Municipalities that expressed an interest. If it was not implemented on a Region-wide basis, it would result in a redistribution of the Region's levy to Area

Municipalities that have not opted into the new subclass and therefore do not benefit from it.

- Provincial matching requirements. The Province requires program details to be provided to the Province by March 31 of the taxation year for provincial matching of relief on the education tax which would likely not be achievable.
2. Council could direct staff to undertake further public consultation with respect to policy objectives in 2022 and only consider implementation in a future year (i.e., 2023 or later) if compelling enough policy outcomes can be achieved. Implementation would again have to satisfy the same considerations as noted above.

Relationship to Council Strategic Priorities

This report addresses Council's priority of Businesses and Economic Growth.

Other Pertinent Reports

[CSD 12-2021](#) Optional Small Business Tax Subclass Overview

Prepared by:

Rob Fleming, MBA
Senior Tax & Revenue Analyst
Corporate Services

Recommended by:

Todd Harrison, CPA, CMA
Commissioner/Treasurer
Corporate Services

Submitted by:

Ron Tripp, P.Eng.
Acting Chief Administrative Officer

This report was prepared in consultation with the Local Area Treasurers and Margaret Murphy, Associate Director, Budget Planning & Strategy, and reviewed by Helen Chamberlain, Director, Financial Management & Planning/Deputy Treasurer

Appendices

- Appendix 1 Provincial Bulletin, Checklist – Small Business Subclass – May 2021
- Appendix 2 DRAFT Municipal Property Assessment Corporation White Paper –
Policy Drivers Section Excerpt



NEW OPTIONAL SMALL BUSINESS PROPERTY SUBCLASS

May 2021

As announced in the *2020 Ontario Budget*, the Province is providing municipalities with the flexibility to target property tax relief to eligible small businesses through the adoption of a new optional small business property subclass. Amendments to O. Reg. 282/98 under the *Assessment Act*, O. Reg. 73/03 under the *Municipal Act, 2001* and O. Reg. 121/07 under the *City of Toronto Act, 2006* were filed on May 7, 2021, which implement the subclass.

This bulletin provides municipalities with an overview of implementation details, including requirements for municipal by-laws, administration of the subclass and provincial matching of municipal property tax reductions with education property tax reductions.

IMPLEMENTATION

Municipal By-Law

Municipalities that choose to implement the optional small business property subclass are required to pass a municipal by-law providing the following:

- The decision to adopt the subclass
 - In two-tiered municipalities, the upper-tier municipality must pass a by-law to adopt the subclass.
- The subclass tax reduction to be applied to the commercial and/or industrial class municipal tax rate
 - The reduction can be set up to 35% of the municipal rate for the property class.
- Requirements that the property must meet to be included in the subclass
 - Municipalities have a variety of priorities that may influence the definition of “small business” and, as such, are in the best position to define eligibility criteria that reflect their local priorities and needs.
 - Note that all commercial and industrial properties (except properties that are or would be classified in the large industrial property class or the parking lot and vacant land property class, or vacant or excess land), are eligible to be included in the new small business property subclass.
- Appointment of a Program Administrator to administer the program, including approving properties for inclusion in the subclass, notifying property owners of

decisions and reviewing requests for reconsideration related to a property's eligibility for inclusion in the subclass

- Appointment of an Appellate Authority to hear any appeals of the Program Administrator's eligibility decisions

Municipalities may also choose to require in municipal by-law that landlords pass the tax reduction to tenants as a condition of eligibility in the subclass.

As part of the process of developing a small business property subclass by-law, municipalities are strongly encouraged to consult with their local business stakeholders and other interested parties.

Program Administration

Municipalities are responsible for establishing detailed eligibility criteria for the optional small business subclass. This would require the municipality to develop and administer a process to identify or approve eligible properties for inclusion in this subclass.

Through the appointment of a Program Administrator, municipal staff would identify qualifying properties classified in the commercial or industrial property classes, or both, that meet the eligibility criteria. This could be done either through an application-based process or through a criteria-based determination process. Properties approved for inclusion in the subclass by the Program Administrator must be listed in a publicly accessible registry (details of the registry requirements are found in the Municipal Checklist below). The Program Administrator would also be required to establish a process where an owner may make a request for reconsideration.

Municipalities can utilize the Ontario Property Tax Analysis (OPTA) system to build scenarios and model tax impacts of adopting the small business subclass.

Municipalities are required to notify the Municipal Property Assessment Corporation (MPAC) of the properties included in the subclass, such that MPAC can classify the property within the small business property subclass for taxation purposes.

Municipalities will also be responsible for monitoring ongoing eligibility, updating the registry of eligible properties and notifying MPAC when properties become eligible or ineligible for the subclass as a result of a municipal determination.

Municipalities are also required to appoint an Appellate Authority to hear appeals about whether or not the property should be included in the subclass.

Appeals of assessed value would continue to be directed to the Assessment Review Board.

Funding the Subclass

Consistent with other property subclasses, municipalities can fund the small business subclass either by absorbing the cost through a levy decrease or by funding it broadly across all property classes.

Municipalities also have the option of funding the small business subclass within the commercial and/or industrial property class through the adoption of revenue neutral tax ratios, as per section 9 in O. Reg 385/98 under the *Municipal Act, 2001* and section 2.2 in O. Reg. 121/07 under the *City of Toronto Act, 2006*.

The adoption of the subclass, including how the tax reduction is funded, is a municipal decision. As with other tax rate decisions, municipalities are responsible for understanding the potential tax impact on affected taxpayers. Municipalities are strongly encouraged to consult with their local business stakeholders and other interested parties prior to finalizing their decision-making.

Provincial Matching of Tax Reductions

As announced in the *2020 Budget*, the Province will consider matching municipal property tax reductions with education property tax reductions to provide further support for small businesses. To qualify:

- Municipalities would notify the Minister of Finance of the decision to adopt the subclass and submit a municipal by-law outlining the program requirements as well as estimated total municipal tax relief to small businesses.
- Municipalities would conduct consultations with business stakeholders regarding the small business property subclass.
- The Minister would review each submission and determine whether to match municipal reductions on a case-by-case basis.

Submissions to the Minister of Finance can be sent directly to the Minister, with a copy to info.propertytax@ontario.ca, prior to **March 31** for the applicable taxation year.

Hon. Peter Bethlenfalvy
Minister of Finance, and President of the Treasury Board
Frost Building South, 7th Floor
7 Queen's Park Cres.
Toronto, ON M7A 1Y7
Minister.fin@ontario.ca

Regulations

Regulations implementing the small business property subclass are available on the Government of Ontario's e-laws website at www.ontario.ca/laws. These include:

- O. Reg. 282/98 under the *Assessment Act* is amended by O. Reg. 331/21 establishing the optional small business property subclass
- O. Reg. 73/03 under the *Municipal Act, 2001* is amended by O. Reg. 332/21 setting the municipal reduction factor for the optional small business property subclass
- O. Reg. 121/07 under the *City of Toronto Act, 2006* is amended by O. Reg. 333/21 setting the municipal reduction factor for the optional small business property subclass

FURTHER INFORMATION

Municipalities with any questions regarding the optional small business property subclass may contact the Ministry of Finance at info.propertytax@ontario.ca.

OPTIONAL SMALL BUSINESS PROPERTY SUBCLASS – MUNICIPAL CHECKLIST**MAY 2021****PROGRAM DETAILS**

- ✓ Have you adopted the subclass through municipal by-law?
- ✓ Have you established eligibility criteria for a small business?
- ✓ For municipalities in a two-tiered system, have you discussed proposed changes with lower-tier municipalities?
- ✓ Have you considered how the subclass would be funded?
- ✓ Have you set a discount applicable to the class?
- ✓ Have you consulted with local business stakeholders and other interested parties?

IMPLEMENTATION

- ✓ Have you established an application process or established a criteria-based determination process?
- ✓ Have you appointed a Program Administrator?
- ✓ Have you appointed an Appellate Authority?
- ✓ Have you established a publicly accessible registry of eligible properties? The registry may include but is not limited to the following information:
 - Assessment Roll Number
 - Property Address
 - Unit Number (if applicable)
 - Leased Space (if applicable)
- ✓ Have you provided MPAC the list of eligible properties including property details? The list of eligible properties to MPAC would include the following information:
 - Assessment Roll Number
 - Property Address
 - Legal Description
 - Square Footage
 - Floorplan (if applicable)
- ✓ Have you made a submission to the Minister of Finance to request matching the municipal tax reduction with an education tax reduction? Submission would include the following information:
 - By-law adopting the subclass
 - Overview of program requirements
 - Estimated total municipal tax relief to small businesses
 - Confirmation of consultation with the business community

If you have any questions regarding the implementation of the optional small business property subclass, please contact the Ministry of Finance at info.propertytax@ontario.ca.

Ontario's Small Business Property Subclass: Considerations for Municipalities

2. Municipal Guide to Using the Small Business Property Subclass

2.1. Policy Drivers

A variety of financial and economic development tools already are available to nurture small business development and support their survival. The Subclass adds to this toolbox. Its use should be considered within the broader context of each municipality's characteristics and policy objectives and the combination of tools that best addresses local issues and goals.

The Municipal Working Group identified six potential policy drivers that municipalities where use of the Subclass may align with municipalities' planning or economic development goals. The Survey of Municipalities (the Survey) indicated that all six are of interest to at least a few municipalities. The percentage of Survey respondents who are considering the Subclass or are unsure about using it is provided for each one.¹ The policy drivers are not mutually exclusive nor exhaustive. Some municipalities are interested in achieving several of them:

1. Nurture local small business development in one or more sectors of the economy;
2. Support Downtown and Main Streets;
3. Nurture the development of Innovation Districts, Creativity Zones or Business Parks;
4. Support Business Improvement Areas (BIAs);
5. Mitigate the impact of shifts in property values between districts for small businesses; and/or,
6. Mitigate the impact of widespread revenues losses due to circumstances beyond businesses' control.

Nurture Local Small Business Development in one or more Sectors of the Economy

Providing property tax relief by using the Subclass is a tool that municipalities can consider to support small businesses. Property tax is a significant fixed cost, sometimes

¹ Thirty five Survey respondents (26%) indicated that they did not intend to implement the Subclass and did not answer the questions about the policy objectives they were interested in achieving by using it. They are not included in the calculation of the percentages provided below. The adjusted base is 100 respondents who are considering the Subclass or are unsure about using it.

equalling or exceeding rental levels. The Survey indicated fairly widespread interest in providing broad support to small businesses throughout the municipality (58% of respondents considering the Subclass²), while 9% are considering making the support sector specific, all targeting small retailers and some also including arts/culture, manufacturing and commercial offices. Open ended comments included interest in supporting small business development and entrepreneurship to diversify the local economy.

Support Downtown and Main Streets

Small business support often is synergistic with policies encouraging the revitalization and sustainability of geographic business districts within municipalities. Small commercial businesses tend to predominate in traditional downtowns and main streets, areas which play important community identity, heritage and city-building roles in communities. 11% of the Survey respondents considering the Subclass indicated that downtown or main street support was a policy driver.

Nurture the Development of Innovation Districts, Creativity Zones or Business Parks

Another example where the tax class may have applicability is to support the clustering of small commercial and industrial businesses and entrepreneurs in “innovation districts” and “creativity zones”. Clustering enables small businesses to build synergies and business-to-business connections among themselves. The zones are sometimes associated with revitalizing industrial and port areas. 5% of the Survey respondents considering the Subclass are interested in targeting “innovation zones”, while 6% are interested in targeting their Central Business Districts.

Support Business Improvement Areas (BIAs)

The BIA program has shown itself to be an extremely effective self-help tool enabling both commercial and industrial business communities to come together and collectively invest in improvements to municipally owned property as well as promotional and business development activities that strengthen the business district. They fund the investment through a special levy paid by all commercial and industrial property owners within a specific geographic Area.

Many of their activities also benefit the municipality at large, including local residents and other businesses. Examples include festivals, public entertainment, sidewalk amenities and beautification, developing public squares and parkettes, marketing programs that attract more people to the community, etc. Yet the businesses in BIAs pay the total cost, often resulting in their total taxes being significantly higher than property taxes paid by comparable businesses in other districts. The Subclass could be

² As is explained in Footnote 2, the base for this percentage and those that follow is the 100 respondents who either are considering the Subclass or are unsure about implementing it.

used to partially compensate businesses in BIAs for their additional investment. 11% of the Survey respondents considering the Subclass are interested in targeting BIAs.

Mitigate the Impact of Shifts in Property Values between Districts for Small Businesses

When a property's CVA increases greater than the average for its tax class, the property owner may experience an increase in property taxes above a general tax levy increase. The increase often is passed through to the business tenants operating in the property (as is further discussed in Section 2.6 below)

This can result in tax shifts between different parts of a municipality.

Examples of situations when shifts in property values between districts may occur include:

- In "Growth Areas", where residential or commercial intensification is permitted by the municipality. CVA may increase in anticipation of the redevelopment of properties to higher densities. Property owners and their business tenants may experience increased property taxes as a result.
- Upgraded infrastructure in a district may lead to higher than average market appreciation leading to higher increases in property values during a reassessment relative to other business areas in the community:

30% of the Survey respondents considering the Subclass indicated that mitigating the impact of high CVA increases on small business was relevant.

Mitigate the Impact of Widespread Revenues Losses due to Circumstances Beyond Businesses' Control.

Property tax is a significant fixed cost for most businesses. Therefore, revenue decreases can cause previously sustainable property tax amounts to become less affordable. Small businesses are more vulnerable than larger corporations since they often have limited access to financing or to corporate cash reserves. The Subclass may be a helpful tool for supporting small businesses through such crisis's, especially when the impact is expected to last for several years.

The most recent and dramatic example of widespread business revenue reductions was caused by COVID-19 in 2020 and 2021. Many businesses providing "non-essential" goods and services were required to close or significantly reduce their operations to contain the spread of the pandemic. Impacts for some types of businesses and districts are expected to extend into 2022 and even beyond – especially in sectors and areas dependent on tourism or on employment concentrations where there may be widespread continuation of remote-working. Widespread business support has been provided by the Federal and Provincial governments as well as by many individual municipalities. Specific to property tax stability, the Province continued to use the 2016

CVA for the 2020 and 2021 tax years and reduced the business education tax rate to a maximum of 0.88% throughout the Province.³ The Subclass provides an additional tool.

Extended construction projects where businesses are impacted by road and sidewalk closures or other significant disruptions are another example. Municipalities could consider using the Subclass to provide property tax relief to small businesses located in districts impacted by multi-year road reconstruction or other major construction projects.

6% of the Survey respondents considering the Subclass indicated that providing post-COVID relief to impacted small businesses was a policy driver, while 1% (one person) added that their municipality was interested in providing assistance to small businesses impacted by major road construction.

³ Previously BET rates were variable with businesses in some municipalities paying 1.25%. Reducing all high BET rates to 0.88% resulted in a \$450 million reduction for businesses.