

SECTION B: A FAIR PROPERTY TAX SYSTEM

OVERVIEW

Ontario residential and business property owners need property taxes that are fair and predictable. Homeowners need to know they will not experience sudden or unmanageable tax changes from year to year and business property owners need a system that treats them fairly and does not hamper competitiveness.

The McGuinty government is committed to an improved property tax system that is fair, transparent, predictable and sustainable.

This Budget proposes a number of measures to enhance the fairness and predictability of the current property tax system, including:

- cutting high Business Education Tax (BET) rates
- changes to the assessment system to introduce a four-year reassessment cycle and a mandatory phase-in of assessment increases
- improvements to the fairness and effectiveness of the assessment appeal system.

This Budget also proposes to end Greater Toronto Area (GTA) pooling.

INTRODUCTION

Property tax contributes to the funding of key programs and services for residents and businesses across Ontario. It is a primary source of revenue for municipalities and school boards.

There are two components to property tax:

- a municipal portion (based on tax rates set by municipalities)
- a provincial education portion (based on tax rates set by the Province).

Property taxes raise more than \$19 billion per year in Ontario. The municipal portion of the tax raises approximately \$13 billion and the education portion approximately \$6 billion.

Municipalities are responsible for the administration of the system, including the establishment of local tax policies (within a Provincial framework), billing and collection.

The Municipal Property Assessment Corporation (MPAC) is responsible for the administration of the property assessment system (within a Provincial framework), including the establishment of assessed values for all properties in the province. It is a not-for-profit corporation that delivers assessment services on behalf of all municipalities in Ontario.

The government has heard concerns from both residential and business property owners about different aspects of the property tax system.

The key concerns expressed by business property owners relate to fairness and competitiveness. In particular, businesses are concerned about the high level of taxes as well as the wide variation in BET rates across the province.

Residential property owners are concerned about stability and predictability. In particular, residents want to know that they will not experience sudden or unmanageable tax changes from year to year. Residents have also expressed concern about fairness in the assessment appeal process.

CUTTING BUSINESS EDUCATION PROPERTY TAXES

This Budget announces a plan to significantly reduce the wide variation in BET rates. Under the government's plan, the Province will implement a \$540 million cut to high BET rates over the next seven years. This will reduce BET rates in 321 municipalities across the province and benefit more than 500,000 businesses of all sizes.

This initiative is a key element in the government's overall strategy to enhance Ontario's investment climate and builds on the proposal in this Budget to accelerate the elimination of the capital tax to July 1, 2010. The BET reductions will improve the competitive position of Ontario businesses, create new jobs and strengthen the provincial economy.

Business education property taxes currently contribute \$3.5 billion in funding to support elementary and secondary education in Ontario. The Province's direct transfers to school boards are being increased to ensure that BET cuts will not affect planned increases in overall education funding. See Section C: *Expanding Opportunities for Students*, for further details on education funding.

The Economic Benefits of Reducing High BET Rates

Education taxes typically make up about 50 per cent of total property taxes levied on business properties.

When the Province first assumed responsibility for setting education tax rates in 1998, several hundred different BET rates were established across the province. These rates were set for commercial and industrial property classes in each upper- and single-tier municipality, based on existing 1997 education tax levels.

As a result, there is currently a wide range of BET rates that reflect historical assessment and tax inequities. In fact, the highest BET rates in the province are currently four times the provincial average BET rate of 1.85 per cent.

Business representatives, including the Ontario Chamber of Commerce and Canadian Federation of Independent Business, have criticized high BET rates as being unfair and as being a barrier to economic competitiveness. The variation in rates distorts efficient business location decisions — placing many regions of the province at a disadvantage and harming the provincial economy overall.

“The taxation of business properties in Ontario, with rare exceptions, is grossly unfair... Within the business property tax envelope, education property taxes are by far the greater offender....”

Canadian Federation of Independent Business,
October 2006

Cutting high BET rates will result in economic benefits to Ontario in terms of increased jobs, investment, productivity and output. The economic benefits of this initiative will be widespread. In fact, businesses in northern Ontario will be the largest beneficiaries of the BET cuts, with an average percentage decrease of 32 per cent.

Details of Proposed \$540 Million BET Cut

Over the next seven years, the government will cut Business Education Taxes by \$540 million — lowering high BET rates to a target maximum rate of 1.60 per cent. This new maximum rate is well below the current average BET rate of 1.85 per cent.

BET rates that are currently below 1.60 per cent will not be increased under this plan.

Starting in 2008, the government will introduce an initial annual ceiling rate of 2.50 per cent for commercial properties and 3.00 per cent for industrial properties. Each year, these annual ceiling rates will be reduced until they reach the target maximum BET rate of 1.60 per cent on January 1, 2014.

All businesses with BET rates above the 1.60 per cent target maximum rate will benefit from tax rate reductions each year — even those that are below the annual ceiling

Year	Annual Commercial Ceiling Rate (%)	Annual Industrial Ceiling Rate (%)	Estimated Business Tax Cut (\$ Millions)
2008	2.50	3.00	15
2009	2.35	2.75	35
2010	2.20	2.50	65
2011	2.05	2.25	105
2012	1.90	2.00	180
2013	1.75	1.75	350
2014	1.60	1.60	540

Note: BET rates may need to be recalculated in 2009 and future years to adjust for the impact of reassessment-related changes. Annual ceiling and target maximum rates may also need to be managed to account for these changes.

rates. Each year, BET rates that are below the annual ceiling rate will be reduced by two per cent of the amount by which they exceed 1.60 per cent.

In addition, all new construction initiated after March 22, 2007, will immediately be subject to the 1.60 per cent maximum BET rate. This measure will maximize the economic benefits of the initiative in terms of stimulating new investment. It will also serve to immediately establish a more level playing field for businesses facing decisions about where to build new manufacturing facilities or other business complexes.

Province-Wide Benefits of BET Cuts

Table 3 provides the projected BET cuts for commercial and industrial properties in each region of the province and illustrates that the benefits will be broadly distributed. In fact, more than 50 per cent of the total \$540 million reduction will benefit businesses outside the Greater Toronto Area (GTA).

The projected cuts are shown for 2014 when the planned BET cuts will be fully implemented.

BUSINESS EDUCATION PROPERTY TAX CUTS			TABLE 3	
Region	Municipality (counts reflect lower- and single-tier municipalities)	Property Class	Fully Implemented	
			Projected 2014 Tax Cut (\$)	Projected 2014 Tax Cut (%)
NORTH:				
	Thunder Bay	Industrial	5,499,000	55
		Commercial	8,491,000	38
	Sault Ste. Marie	Industrial	2,303,000	46
		Commercial	2,451,000	23
	Timmins	Industrial	2,104,000	46
		Commercial	738,000	15
	Greater Sudbury	Industrial	3,930,000	43
		Commercial	4,402,000	19
	North Bay	Industrial	177,000	14
		Commercial	2,967,000	30
	North Region	Industrial	6,571,000	42
	80 Other Benefiting Municipalities	Commercial	4,882,000	25
EAST:				
	Cornwall	Industrial	1,035,000	46
		Commercial	3,329,000	34
	Kingston	Industrial	1,228,000	40
		Commercial	4,610,000	19
	Belleville	Industrial	700,000	33
		Commercial	3,359,000	25
	Brockville	Industrial	384,000	30
		Commercial	1,565,000	29
	Ottawa	Industrial	7,884,000	26
		Commercial	25,753,000	12
	East Region	Industrial	6,427,000	43
	63 Other Benefiting Municipalities	Commercial	4,894,000	13

BUSINESS EDUCATION PROPERTY TAX CUTS
TABLE 3

Region	Municipality (counts reflect lower- and single-tier municipalities)	Property Class	Fully Implemented	
			Projected 2014 Tax Cut (\$)	Projected 2014 Tax Cut (%)
CENTRAL:				
	Guelph	Industrial	4,995,000	39
		Commercial	3,417,000	17
	Waterloo Region	Industrial	16,371,000	39
		Commercial	19,586,000	22
	Toronto	Industrial	26,428,000	22
		Commercial	205,069,000	19
	Hamilton	Industrial	1,690,000	10
		Commercial	6,978,000	10
	Peel Region	Industrial	12,096,000	10
	Central Region	Industrial	38,649,000	18
	86 Other Benefiting Municipalities	Commercial	8,345,000	17
SOUTHWEST:				
	Oxford County	Industrial	5,036,000	45
		Commercial	3,002,000	22
	Lambton County	Industrial	4,432,000	45
		Commercial	2,877,000	16
	Windsor	Industrial	9,719,000	45
		Commercial	4,740,000	11
	London	Industrial	5,657,000	44
		Commercial	28,012,000	34
	Essex County	Industrial	5,445,000	36
	Southwest Region	Industrial	10,891,000	41
	41 Other Benefiting Municipalities	Commercial	7,570,000	17
OTHER RURAL MUNICIPALITIES:				
	Northumberland County	Industrial	1,897,000	52
		Commercial	1,647,000	19
	Elgin County	Industrial	1,722,000	50
	Lennox and Addington County	Industrial	1,254,000	49
		Commercial	492,000	17
	Stormont, Dundas and Glengarry County	Industrial	765,000	45
		Commercial	1,023,000	21
	Renfrew County	Industrial	967,000	45
		Commercial	694,000	11
	Chatham—Kent	Industrial	2,475,000	44
		Commercial	2,400,000	18
	Grey County	Industrial	1,158,000	40
		Commercial	1,528,000	14
	Norfolk	Industrial	642,000	39
		Commercial	975,000	17
OTHER RURAL MUNICIPALITIES: (cont'd)				

BUSINESS EDUCATION PROPERTY TAX CUTS**TABLE 3**

Region	Municipality (counts reflect lower- and single-tier municipalities)	Property Class	Fully Implemented	
			Projected 2014 Tax Cut (\$)	Projected 2014 Tax Cut (%)
	Haldimand	Industrial	1,613,000	38
		Commercial	384,000	12
	Simcoe County	Industrial	3,996,000	35
	Rural Municipalities	Industrial	31,087,000	39
	173 Other Benefiting Municipalities	Commercial	13,143,000	16

Note: Projections are based on 2007 BET rates and 2005 current value assessments. These rates may need to be adjusted to account for the impacts of reassessment-related changes. Therefore, once the initiative is fully implemented, actual cuts may vary somewhat from these projections. Rural municipalities are also included in the appropriate regional section of the table. For example, the Counties of Oxford, Lambton and Essex appear as part of both the Southwest region and the Rural summaries.

ENDING GTA POOLING

The government is announcing a plan to phase out GTA pooling over seven years beginning in 2007.

Greater Toronto Area pooling was established under the previous government in 1998 to share social assistance and social housing costs across the GTA. The program results in a transfer of approximately \$200 million in assistance, primarily to the City of Toronto. However, this transfer places an additional burden on the municipal property tax bases of contributing municipalities, including York Region, Peel Region and Halton Region.

For 2007, GTA pooling contributions will be rolled back to 2004 levels. Each subsequent year, costs will be reduced by one-sixth of the 2004 levels, until the program is fully eliminated in 2013.

The government will also make provisions to ensure continued financial support for those municipalities currently receiving assistance through GTA pooling. For example, any increases in the City of Toronto's social program costs resulting from the elimination of GTA pooling will be eligible for provincial assistance through the Ontario Municipal Partnership Fund.

Therefore, as GTA pooling is phased out, the Province will take responsibility for social assistance and social housing costs currently funded under the program. This will eliminate a \$200 million burden from the municipal property tax bases of contributing GTA municipalities while ensuring continued financial assistance for recipient municipalities.

FAIR AND PREDICTABLE PROPERTY TAXES

Property tax is based on the current market value of properties. This system of valuation is referred to as current value assessment (CVA). Assessments based on market values are used widely across North America as the basis for property taxation. Assessments based on current value provide clarity and transparency and establish an equitable basis for distributing property taxes among property owners.

When the CVA system was introduced in Ontario in 1998, annual reassessments were planned to keep values up to date to ensure that properties of equal value in the same community pay equal taxes. However, annual reassessments can come at the cost of predictability and stability for many taxpayers in an active real estate market when property values change rapidly and unpredictably from one year to the next. In recent years, there have been rapid changes in property values, which have led to concerns about volatile property tax changes for many homeowners. The government understands that the lack of certainty surrounding reassessment is a source of worry for Ontario families.

There are a variety of tax policy mechanisms available to municipalities to help make assessment changes manageable for property owners. For example:

- municipalities can reduce their tax rates to offset the average impact of reassessment
- the government has provided municipalities with the flexibility to avoid reassessment-related tax shifts between property classes, easing the property tax burden on residential taxpayers
- municipalities are required to offer relief from reassessment-related tax increases to low-income senior and disabled homeowners.

In addition, the Province provides property tax relief for low- and moderate-income individuals and families through the refundable Ontario Property and Sales Tax Credits. These credits are delivered annually through the personal income tax system. In 2007, this program is expected to provide an estimated \$740 million in property tax relief to Ontarians who own or rent their principal residences. This relief includes the impact of the enhancement to the Ontario Property and Sales Tax Credits for senior couples proposed in this Budget. In 2007, eligible seniors would benefit from an estimated \$97 million in property tax relief as a result of improvements to these credits since 2003. See Section A: *Expanding Opportunities for Children and Families* for more information.

The government proposes to introduce three important changes to the assessment system to enhance the fairness and predictability of assessments for property owners while continuing to revalue properties on a regular basis and enabling municipalities to continue relying upon a stable source of revenue to fund important public services. These proposed changes are:

- a four-year reassessment cycle
- a mandatory phase-in of assessment increases
- enhancements to the fairness and effectiveness of the assessment appeal system.

The implementation details of these proposed measures, as well as related programs and policies, will be the subject of consultation with municipalities, the Municipal Property Assessment Corporation (MPAC), and the Assessment Review Board (ARB).

Timing of Reassessments — A Four-Year Cycle

The next reassessment is currently scheduled to take place for the 2009 taxation year, based on property values as of January 1, 2008.

For the future, the government is proposing that subsequent reassessments would be conducted every four years, coupled with the implementation of a mandatory phase-in program.

The timing of the four-year reassessment cycle would operate as follows:

A four-year cycle of reassessments, together with the proposed mandatory phase-in program, would:

- provide stability and predictability to taxpayers
- help maintain equity between properties (updating assessments with sufficient frequency so that similar properties with similar values pay similar taxes)
- facilitate accurate, efficient and cost-effective administration of the assessment system.

- Upon the next reassessment for the 2009 taxation year, property assessments will be updated using a valuation date of January 1, 2008. This valuation date would apply for 2009, 2010, 2011 and 2012.
- The cycle would continue accordingly every four years.

Mandatory Phase-in of Residential Assessment Increases

To provide an additional level of property tax stability and predictability for Ontario homeowners, the government proposes to introduce a mandatory phase-in of future residential assessment increases over four years.

The proposed four-year phase-in program would be implemented province-wide in 2009, following the next reassessment. This approach would complement the proposed introduction of a four-year assessment cycle.

While assessment increases do not necessarily lead to tax increases, the proposed phase-in would provide homeowners with greater certainty by introducing increases gradually over a four-year period. For example, a 20 per cent assessment increase would be phased in gradually in increments of five per cent a year over four years.

Even under a mandatory assessment phase-in, municipalities could continue to lower their tax rates to offset average assessment increases, so that, on average, homeowners would not see an increase in their property tax bills as a result of reassessment.

The phase-in program would apply to residential, farm and managed forest properties. The program would not apply to assessment decreases. This avoids the possibility of a homeowner being taxed on an assessment greater than the actual value of their property.

The government intends to consult with municipalities and MPAC as to whether the proposed mandatory phase-in program should be expanded to other property classes, such as commercial, industrial or multi-residential.

Assessment Appeal System

The government has heard concerns from property owners and municipalities about the structure of the assessment appeal system.

Currently, property owners who disagree with the accuracy of the assessment or tax classification that MPAC has established for their property have two options: they can ask MPAC to reconsider their assessment through an informal process known as the “request for reconsideration” or they can file an appeal with the ARB.

The deadline to submit requests for reconsideration to MPAC is December 31 of the taxation year. The deadline to submit appeals to the ARB is March 31 of the taxation year (nine months earlier than the reconsideration deadline). The Municipal Property Assessment Corporation is not obligated to respond to reconsideration requests prior to the ARB’s appeal deadline, leading many people to file protective appeals with the ARB that are held in abeyance pending a response from MPAC on the reconsideration. The current appeal process often leads to confusion, duplication of effort, and inefficient use of resources.

Another concern about the appeal process relates to the flow of information between MPAC and property owners. There are no clear or consistent rules in place governing the sharing of information upon requests for reconsideration or appeals. Due to this lack of clarity, the various participants in the appeal process do not know what information they should be requesting from, or disclosing to, the other parties. This exacerbates the confusion and frustration that many people experience when challenging their assessments.

In examining these concerns, the government has sought input from various stakeholders, researched the appeal processes in other jurisdictions, and carefully considered the advice about the appeal system expressed by Ontario's Ombudsman in a report dated March 28, 2006.

The government is proposing to introduce the following measures to improve the fairness and effectiveness of the assessment appeal system:

- convert the optional request for reconsideration program into the mandatory first stage of the assessment appeal process
- change the deadline for filing ARB appeals so that it follows the completion of the reconsideration process
- establish standard information disclosure requirements at both the reconsideration and appeal stages.

Establishing a two-stage appeal process with sequential filing deadlines and standardized information disclosure protocols should:

- simplify the appeal process as only one avenue of review would be pursued at any time
- ensure that the reconsideration process is used effectively as a venue for the exchange of information
- reduce the number of appeals by resolving factual issues through the sharing of information at the reconsideration stage
- provide parties with access to consistent information within consistent timelines.

The government proposes to implement these measures to dovetail with the timing of the next reassessment for the 2009 taxation year.

The government intends to consult with municipalities, the ARB and MPAC regarding the implementation of the measures outlined above, as well as other improvements to enhance flexibility and transparency in the property tax system.