

*Information Bulletin:*

**Property Tax Treatment of Commercial, Industrial  
and Multi-Residential Properties that undergo a  
Consolidation, Severance or Partial Change of Use**

**Purpose of Bulletin**

This bulletin provides an overview of the rules governing the calculation of property taxes for **commercial, industrial and multi-residential** properties that undergo one of the following changes:

- < consolidation of parcels;
- < subdivision or severance of parcels;
- < change in proportions of classes in a mixed-use property due to the expansion or reduction of one or more existing uses;
- < change in proportions of the exempt and taxable components of a property due to the expansion or reduction of the exempt activity.

**Legal Context**

The rules described in this bulletin were enacted through Ontario Regulation (O. Reg.) 450/03 as an amendment to O. Reg. 73/03, a regulation made under the *Municipal Act, 2001* (hereinafter referred to as “the Act”). This regulation applies for 2003 and subsequent years within the context of the 5% cap on tax increases under Part IX of the Act.

The rules in O. Reg. 450/03 are similar to the rules that were previously prescribed in O. Reg. 419/02 under the former *Municipal Act*, R.S.O. 1990, chapter M.45. These rules have been updated by O. Reg. 450/03 to:

- < reflect the new section numbers and terminology of the new *Municipal Act, 2001* which came into force on January 1, 2003;
- < make the regulation self-perpetuating rather than year-specific; and
- < modify some of the formulas to accommodate annual reassessments.

**NOTE: The information in this document is provided for general reference purposes only. For complete information or for precise interpretation, please refer to Part IX of the *Municipal Act, 2001* and Ontario Regulation 73/03.**

# CONSOLIDATION OF PROPERTIES

## Properties from the Same Class

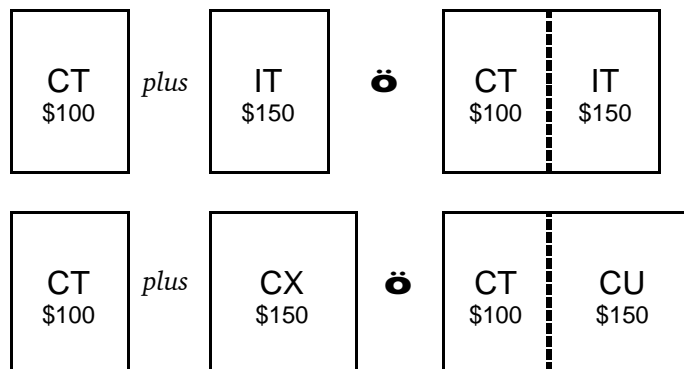
- C If two or more parcels are consolidated into a single parcel, and if there is no change in classification or physical alteration of the property, the base taxes of the new consolidated property shall be calculated by adding together the capped taxes of the former separate parcels. For example:



- C This rule is set out in subsection 25(2) of O. Reg. 73/03.

## Properties from Different Classes or Sub-Classes

- C If two properties with different classifications are consolidated into one property, and if there is no change in use or physical alteration of either portion, the taxes of each portion of the new consolidated property shall be based on the capped taxes of the former separate property with the corresponding classification. For example:



- C These rules are set out in subsections 25(3) and (4) of O. Reg. 73/03.

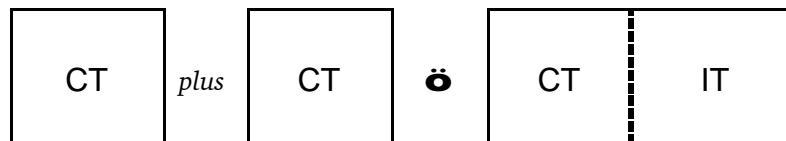
## Complete Change of Classification

- C If the consolidation of parcels is accompanied by a change in the use or classification of the entire property, then the rules under section 331 of the *Act* will be applied to determine the taxes of the new property using the level of taxation of up to six comparable properties in the vicinity. For example:



## Partial Change of Classification (Capped to Capped - Scenario 1)

- C If two parcels from the same property class are consolidated into one parcel that is partly in the former class and partly has a new classification, for example



- < the part with the new classification will be subject to the rules under section 331 of the *Act*, and
- < the portion of the consolidated property that retains its former classification shall have its base taxes calculated in the following manner:
  - ā determine the proportion of the assessment of this part of the property to the assessment of the overall consolidated property (in this example, divide the new CT assessment by the combined CT + IT assessment);
  - ã multiply the fraction calculated in step ā by the combined assessments of the former separate parcels from the previous year;
  - ä multiply the amount determined in step ã by the average level of taxation of the former separate parcels from the previous year, and multiply that amount by the tax rate applied to the former separate parcels from the previous year.

- C This rule is set out in subsection 25(5) of O. Reg. 73/03.

## Partial Change of Classification (Capped to Capped - Scenario 2)

- C If two parcels from different capped classes are consolidated into one parcel that bears the classification of one of the pre-consolidation parcels, for example,



the base taxes of the new property shall be calculated by adding together the following two things:

- a** the capped taxes of the pre-consolidation parcel that had the same classification as the new property (in this example, IT); and
  - a** the product of applying the tax rate and the level of taxation of the pre-consolidation parcel that had the same classification as the new property (in this example, IT) to the CVA of the pre-consolidation parcel that had a different classification (in this example, CT), provided that the level of taxation shall not exceed 1.0.
- C Applying sample numbers to the preceding example, the calculation would proceed in the following manner:

### **Sample Numbers:**

- < IT taxes pre-consolidation were \$5,000
- < IT tax rate pre-consolidation was 2%
- < IT level of taxation pre-consolidation was 0.8
- < CT pre-consolidation CVA was \$100,000

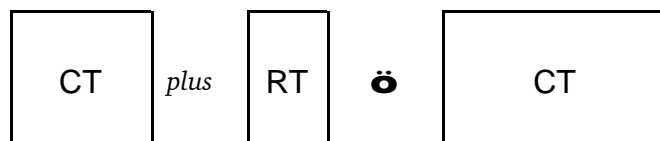
### **Calculation:**

- < Component **a** \$5,000
- plus*
- < Component **a** \$1,600 [100,000 x 2% x 0.8]
- equals*
- < Taxes of consolidated parcel of \$6,600.

- C This rule is set out in subsection 25(6) of O. Reg. 73/03.

## Partial Change of Classification (Capped Parcel + Uncapped Parcel = Fully Capped Parcel)

- C If a parcel from a capped class is consolidated with a parcel from an uncapped class, for example,



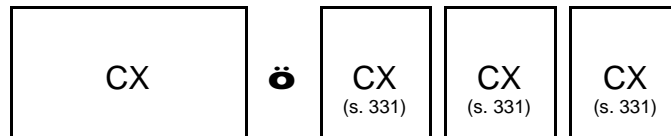
calculate the base taxes on the new consolidated parcel by adding together the following two things (based on the above example):

- a** the taxes of the pre-consolidation capped (CT) parcel; and
  - a** the product of applying the tax rate and the level of taxation of the pre-consolidation capped (CT) parcel to the CVA of the former uncapped (RT) parcel, provided that the level of taxation shall not exceed 1.0.
- C This rule is set out in subsections 25(7) and (8) of O. Reg. 73/03.

## SEVERANCES

### Vacant Land

- C If a parcel of vacant land is subdivided into more than one parcel of vacant land, each new parcel is subject to the rules under section 331 of the Act. For example:



### Partial Class Change

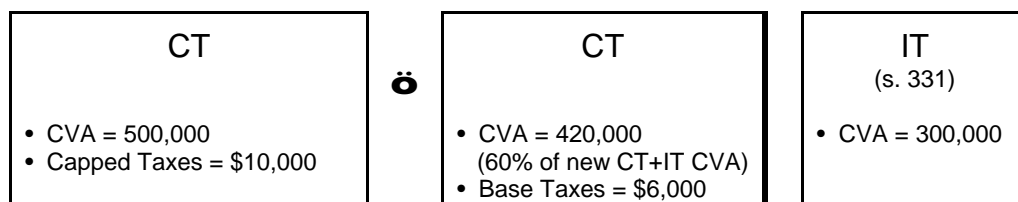
- C If an improved property (that is, a property with a building) is subdivided into two or more parcels whereby one portion retains the former classification and one or more portions change classification,

< the severed parcel(s) with the new classification will be subject to the rules under section 331 of the Act;

and

< the base taxes of each severed parcel with the same classification as the former property shall be calculated as a percentage of the capped taxes of the former property based on the proportion that the severed parcel's CVA bears to the total combined assessment of the severed parcels.

For example:

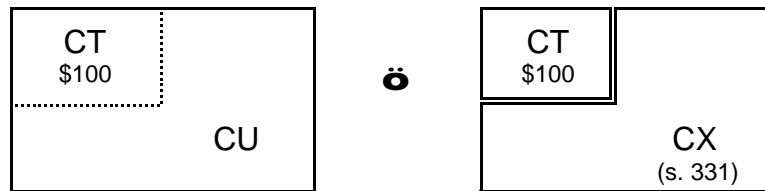


- C This rule is set out in subsection 26(2) of O. Reg. 73/03.

## Sub-Class Severed

- C If a property containing a building and excess land is severed, creating an improved parcel and a vacant parcel,
  - < the taxes on the improved parcel shall be based on the capped taxes of the pre-severance portion of the parcel in the corresponding class;
  - and
  - < the vacant land parcel will be subject to section 331 of the *Act*.

For example:



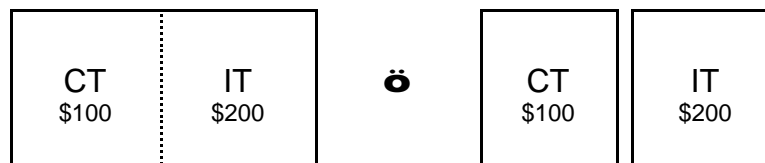
- C This rule is set out in subsection 26(3) of O. Reg. 73/03.

## No Class Change

### ***Mixed-Use:***

- C If portions of a property were in **different classes** or sub-classes prior to being subdivided, and if each portion was separately identified on the assessment roll, and if the severed parcels retain the same respective classifications as the pre-severance portions of the property, the taxes of each new property shall be based on the capped taxes of the corresponding portion of the pre-severance property (that is, the portion that was in the same class).

For example:

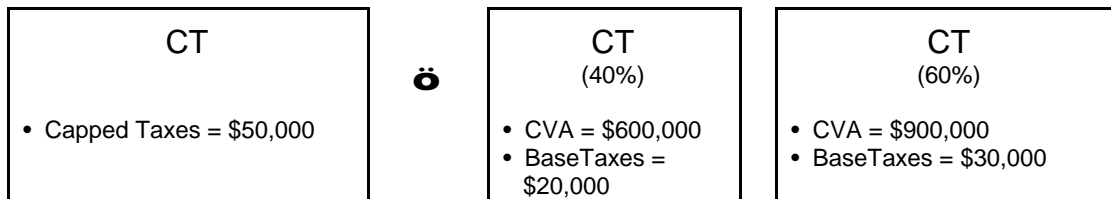


- C This rule is set out in subsection 26(4) of O. Reg. 73/03.

## Single-Use:

- C If a property is severed into two or more properties that retain the **same classification** as the pre-severance property, the base taxes of each new severed parcel shall be calculated as a percentage of the capped taxes of the former property based on the proportion that each new parcel's CVA bears to the total combined assessment of the severed parcels.

For example:



- C This rule is contained in subsection 26(2) of O. Reg. 73/03.

## Minor Severance

- C If a small portion of a property is severed off, e.g. a one-foot strip of land for a road allowance, the tax treatment of the property will be determined by whether the severed portion can be built upon (that is, whether it meets the minimum size requirements for development under the relevant municipal zoning by-law).
- < If the small severed vacant parcel meets the minimum size requirements for development under the relevant municipal zoning by-law, this property will be subject to section 331 of the *Act* [refer to subsection 22(3) paragraph 3 of O. Reg. 73/03].
  - < If the small severed parcel is too small to be built upon, it will be treated according to its new position as either a road allowance (in which case it will be exempt) or as an addition to another parcel (in which case it will be added to the taxes of the other parcel through the consolidation rules discussed above).
  - < In both cases, the capped taxes of the remaining host parcel will be reduced in proportion to the percentage reduction in its CVA.

## MIXED-USE PROPERTIES

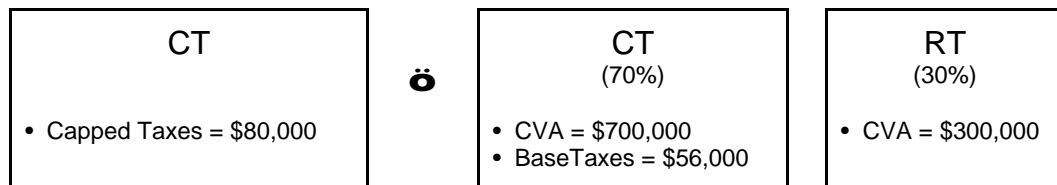
### Market Value Changes

- C If the proportions of the CVA in the respective classes of a mixed-use property are changed from one year to the next due to market value changes that are reflected upon reassessment, the base taxes on the property should not be recalculated.
- < The 5% cap should be maintained on each portion of the property, and the new CVA incorporating the value change forms the basis for the destination taxes.

### Addition of New Class

- C If a single-use property that was subject to capping becomes a mixed-use property due to the addition of a second use, the base taxes of the portion of the property bearing the same classification as the previous single-use classification (hereafter referred to as “the subject portion”) shall be calculated as a percentage of the capped taxes of the former single-use property based on the proportion that the subject portion’s CVA bears to the total combined assessment of the mixed-use property.

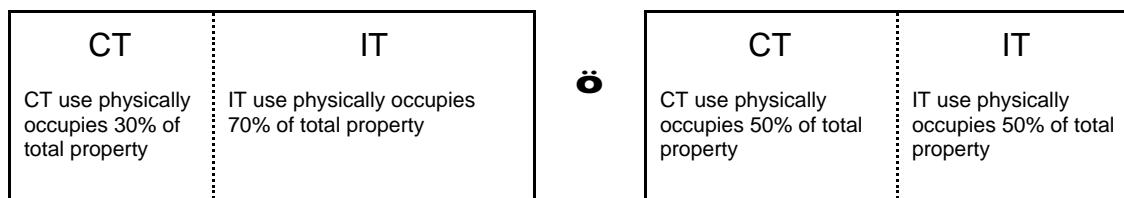
For example,



- C This rule is set out in section 27 of O. Reg. 73/03.

### Changes in Proportionate Use

- C If the proportions of the CVA that are allocated to each class in a mixed-use property are changed due to a change of use, for example:



the base taxes of each portion shall be calculated as follows:

< for the portion of the property whose **use** has been **expanded** and whose **CVA** has **increased** proportionately (in this example, CT), the base taxes shall be calculated by applying the property class tax rate from the previous year and the level of taxation on this portion of the property from the previous year to the proportionate increase in CVA, provided that the level of taxation shall not exceed 1.0;

and

< for the portion of the property whose **use** has been reduced and whose **CVA** has **decreased** proportionately (in this example, IT), the base taxes shall be calculated by reducing the capped taxes of this portion of the property from the previous year by the proportionate reduction in the CVA.

More specifically, the following steps are applied in the calculations:

< ***PORTION WITH EXPANDED USE AND PROPORTIONATE INCREASE IN CVA:***

- a** determine the proportion of the assessment of this part of the property to the total assessment of the overall property for the current year (in this example, divide the CT assessment by the combined CT + IT assessment);
- a** multiply the fraction calculated in step **a** by the total assessment of the property from the previous year;
- a** multiply the product calculated in step **a** by the tax rate applied to this portion of the property in the previous year;
- a** from the amount determined in step **a**, subtract the uncapped taxes of this portion of the property for the previous year (determine uncapped taxes by multiplying the assessment on this portion of the property in the previous year by the tax rate applied to this portion of the property in the previous year);
- ae** multiply the remainder determined in step **a** by the lesser of 1.0 or the level of taxation on this portion of the property in the previous year (determine the level of taxation by dividing the capped taxes by the uncapped taxes);
- e** add the product determined in step **ae** to the capped taxes that were levied on this portion of the property in the previous year.

< **PORTION WITH REDUCED USE AND PROPORTIONATE DECREASE IN CVA**

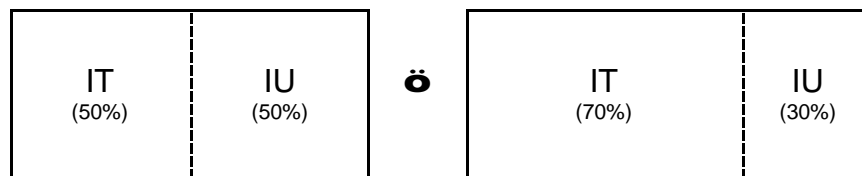
- a** determine the proportion of the assessment of this part of the property to the total assessment of the overall property for the current year (in this example, divide the IT assessment by the combined CT + IT assessment);
- ä** multiply the fraction calculated in step **a** by the total assessment of the property from the previous year;
- ä** determine the taxes that would have been levied for the previous year on the assessment amount determined in step **ä**, by applying the rules in section 329, 330, or 331 of the Act (whichever provision applies in the circumstances of this portion of this property).

C These rules are set out in section 28 of O. Reg. 73/03. Subsection **28(2)** applies to the portion of the property whose proportionate assessment has **increased**, and subsection **28(3)** applies to the portion of the property whose proportionate assessment has **decreased**.

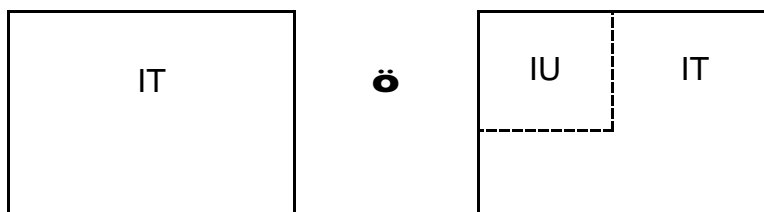
### Change in Excess Land Proportions

C For commercial or industrial properties where the proportion of the CVA that is in the subclass for excess land is expanded or reduced due to a change in by-law requirements or a change in use (*Example A*), or if a property acquires a new excess land component at year-end (*Example B*),

*Example A*



*Example B*





the base taxes on each portion of the property shall be calculated as follows:

- < for the portion of the property that is **not in a sub-class for excess land** (i.e. the CT or IT portion), the base taxes are determined by multiplying the capped taxes levied on the property in the previous year by the ratio that the CVA of this portion of the property in the taxation year bears to the total CVA of the property in the taxation year; and
- < for the portion of the property that **is in a sub-class for excess land** (i.e. CU or IU), the base taxes are determined by multiplying the capped taxes levied on the property in the previous year by the ratio that the CVA of this portion of the property in the taxation year bears to the total CVA of the property in the taxation year.

More specifically, the following steps are applied in the calculations:

< ***PORTION NOT IN EXCESS LAND SUB-CLASS (CT OR IT PORTION)***

- ā determine the proportion of the assessment of this part of the property to the total assessment of the overall property for the current year (in this example, divide the IT assessment by the combined IT + IU assessment);
- ã multiply the fraction calculated in step ā by the total assessment of the property from the previous year;
- ä multiply the product calculated in step ã by the level of taxation on the property in the previous year, and by the tax rate applied to this portion of the property in the previous year.

< ***PORTION IN EXCESS LAND SUB-CLASS (CU OR IU PORTION)***

- ā determine the proportion of the assessment of this part of the property to the total assessment of the overall property for the current year (in this example, divide the IU assessment by the combined IT + IU assessment);
- ã multiply the fraction calculated in step ā by the total assessment of the property from the previous year;
- ä multiply the product calculated in step ã by the level of taxation on the property in the previous year, and by the tax rate applied to this portion of the property in the previous year (or, for situations where a property acquires a new excess land component where none existed in the previous year, by the tax rate that would have been applied to the excess land sub-class in the previous year).

- C These rules are set out in section 30 of O. Reg. 73/03. Subsection 30(2) applies to the CT or IT portion of a property, and subsection 30(3) applies to the CU or IU portion of the property.

## EXEMPTIONS

### Changes in Taxable and Exempt Proportions

- C If a property has both exempt and taxable portions, and if the **exempt portion decreases** due to a reduction in the amount of space occupied by an exempt entity or used for an exempt activity, the base taxes on the **increased taxable assessment** shall be determined in accordance with the calculation that applies to the portion of a mixed-use property whose use has expanded and whose proportionate assessment has increased (that is, using the formula set out in subsection 28(2) of O. Reg. 73/03).
- C If a property has both exempt and taxable portions, and if the **exempt portion increases** due to an expansion of the amount of space that is occupied by an exempt entity or used for an exempt activity, the base taxes on the **reduced taxable portion** of the property shall be determined in accordance with the calculation that applies to the portion of a mixed-use property whose use has been reduced and whose proportionate assessment has decreased (that is, using the formula set out in subsection 28(3) of O. Reg. 73/03).
- C These rules are contained in section 29 of O. Reg. 73/03.

## GLOSSARY

### Tax Codes

The following tax codes were used in the examples in this bulletin:

CT = Commercial Class, Fully Taxable  
CU = Commercial Class, Excess Land Sub-Class  
CX = Commercial Class, Vacant Land Sub-Class

IT = Industrial Class, Fully Taxable  
IU = Industrial Class, Excess Land Sub-Class  
IX = Industrial Class, Vacant Land Sub-Class

RT = Residential Class, Fully Taxable

### Base Taxes

The term “base taxes” as used in this bulletin refers to the calculation of the previous year’s taxes under subsection 329(2) of the Act for the purpose of establishing a base upon which the current year’s taxes will be calculated under subsection 329(1).

### Definitions

The following definitions were prescribed by O. Reg. 450/03 for use in the interpretation of the rules and formulas in this regulation:

**“Assessment Roll”** is defined to mean the assessment roll prepared in accordance with the *Assessment Act*.

**“Average Level of Taxation”** is defined as a weighted average of the levels of taxation of two or more parcels, weighted in proportion to the CVA of the parcels. Specifically, it is defined as meaning, in respect of two or more parcels of land for the previous year, the sum of the taxes for municipal and school purposes imposed on each parcel in the previous year divided by the sum of the taxes that would have been imposed in the previous year on each parcel if Part IX of the Act had not applied (that is, the combined capped taxes of the parcels divided by the combined uncapped taxes of the parcels).

**“Consolidated Parcel”** is defined as a parcel of land included on the assessment roll for the current year that was included on the assessment roll for the previous year as two or more separate parcels.

**“Level of Taxation”** is defined, in respect of a parcel of land for a year, as the level of taxation on the parcel for the year calculated in accordance with subsection 331(2) paragraph 1 of the *Act* (that is, the capped taxes levied on the property divided by the uncapped taxes that would have been levied on the property if Part IX of the *Act* did not apply).

**“Original Parcel”** is defined as a parcel of land included on the assessment roll for the previous year that is severed or subdivided into two or more parcels of land that are included on the assessment roll for the current year.

**“Property Class”** is defined as a property class prescribed under section 7 of the *Assessment Act*.

**“Separate Parcel”** is defined as a parcel of land included on the assessment roll for the previous year that is included on the assessment roll for the current year as part of a consolidated parcel.

**“Severed Parcel”** is defined as a parcel of land included on the assessment roll for the current year that was part of an original parcel included on the assessment roll for the previous year.

**“Sub-Class”** is defined as a sub-class of real property as defined in section 1 of the *Assessment Act*.

## FURTHER INFORMATION

**Taxpayers** with questions about the tax calculations for their specific properties are advised to contact their **local municipal office**.

**Municipalities** with questions about O. Reg. 73/03 may contact the **Ministry of Finance** through:

Mr. Ian Veitch  
Property Tax Policy Branch  
Ministry of Finance  
777 Bay Street, 10<sup>th</sup> Floor  
Toronto ON M5G 2C8  
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