

Ontario Property Tax System Stacked Against Small Business

How Ontario and Its Municipalities Tax Business Properties

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Business owners in Ontario pay a much larger share of the property tax bill, even though residents remain the primary beneficiaries of municipal services. On average, business owners pay two to three times as much in property taxes compared to residents in their local municipality pay on the same property value. This represents an unjustifiably large burden placed on businesses. While some progress has been made to address the imbalanced property tax load in Ontario, businesses continue to be overtaxed.

Ontario's Property Tax System

Property tax is one of the oldest and most fundamental forms of taxation in Canada. It is a stable source of revenue and remains one of the principal instruments for municipalities to raise funds for the operation of local services, accounting for almost half of total revenues (49.5 per cent)¹.

The property tax system in Ontario is made up of two components including:

▶ **Education Tax Rate**

The Ontario Ministry of Finance sets the rates for the provincial portion of the tax, which helps to fund the elementary and secondary school systems in Ontario.

▶ **Municipal (Lower Tier)/County (Upper Tier) Tax Rate**

The municipality and county (if applicable) set the rates for the other portion of the property tax. These rates are based on budget and service delivery requirements specific to each municipality.

To determine the total property tax bill, the assessed value of the property must be used. The value is determined by the Municipal Property Assessment Corporation (MPAC) - an arm's-length government agency which is responsible for all of the property assessments in the province of Ontario. MPAC's

current value assessment of the property is then multiplied by both the education rate and municipal tax rates for each property class to arrive at the total property tax bill (see figure below).

$$\text{Total Property Tax Bill} = \text{Assessed Property Value} \times \left(\text{Education Tax Rate} + \text{Municipal/County Tax Rate} \right)$$

The Unfairness of Business Property Taxes

There are a number of features within the property tax system in Ontario that create an unfair and disproportionate burden for business properties.

Firstly, property taxes are considered to be profit insensitive – they do not increase or decrease with income and/or consumption like sales and income taxes, nor do they shift with the growth or stagnation of the economy. Property tax hikes may be difficult for small businesses to absorb, especially when the business is not yielding a profit or when property values increase.

Additionally, business property owners are paying a far greater share of the property tax bill than residential property owners. The provincial government applies the same education tax rate for all residential properties across Ontario, but levies a wide-ranging and generally higher business education tax (BET) rate on commercial and industrial properties. In 2013, the education tax rate on every \$100,000 of assessed property value for residential properties was \$212 compared to commercial property education tax rates ranging from \$600 to \$1,685 and industrial property education tax rates from \$620 to \$1,590 on the same property value.

There is also an increasingly disproportionate relationship between the amount of property taxes paid and the costs of the services received by businesses. The municipal portion of the property tax bill pays for local services related to properties, such as roads, waste removal, sewage, and transit. More recently, however, municipal property taxes have also been used to fund an expanded set of services not related to properties, such as regional hospitals, community programs and housing. Residents continue to be the primary consumer of municipal services, while businesses shoulder a much larger burden of the property tax bill.

Box 1 illustrates how business property owners pay much more in property taxes compared to residential property owners.

Box 1:

Overtaxing Peter to Subsidize Paul

Peter and Paul are neighbours in Brockville, Ontario. Their families live in identical homes, each with an assessed value of \$100,000. In 2013, each family paid \$212 in provincial education taxes and \$1,323 in municipal property taxes for their residential properties – a total of \$1,535.

However, Peter's property taxes do not end there. His family paid an additional \$4,067 in property taxes in 2013 because his family owns a small retail store, which also has an assessed value of \$100,000.

	Assessed Property Value (\$)	Municipal Taxes 2013 (\$)	Education Taxes 2013 (\$)	Total (\$)
Paul's Home	100,000	1,323	212	1,535
Peter's Home	100,000	1,323	212	1,535
Peter's Store	100,000	2,577	1,490	4,067
Peter's Total Tax		3,900	1,702	5,602

Source: City of Brockville, 2013 tax rates; CFIB calculations

Peter does not take issue with having to pay property taxes on his retail store, nor does he dispute the assessed value of \$100,000. However, he does object to paying almost **twice the amount of municipal property taxes and seven times the amount of education taxes than he does on his residential property**. The municipality and the province are, in effect, overtaxing Peter to subsidize the services provided to Paul.

Why we Measure the Gap, and not the Actual Rates

The **tax gap** provides a fair assessment of the discrepancies between property tax classes because it measures the commercial and industrial property tax rates compared to residential property tax rates, regardless of the assessed property value. The ratios between the tax classes can be compared to each other and over time to see if they are increasing, decreasing, or remaining the same. That being said, a residential or commercial property owner may find that even though ratios continue to decrease, their property tax bill may increase because of increasing property values.

The tax gap for each municipality is calculated by dividing the commercial or industrial tax rate by the residential property tax rate (see below). The larger the resulting number, or tax gap, the larger the distortion and unfairness in the property tax system. A tax gap of *one* indicates equal treatment between commercial or industrial and residential property classes. When the tax gap is greater than *one*, the tax system favours residential property owners, while a gap of less than *one* indicates favourable treatment for commercial or industrial property owners.

$$\text{Tax Gap} = \frac{\text{Commercial or Industrial Property Tax Rate}}{\text{Residential Property Tax Rate}}$$

Research Methodology

In 2010, CFIB completed a study entitled "*The Tale of Two Tax Rates*", which examined property tax gaps in 201 municipalities across Ontario. Four years later, this report is intended to examine whether progress has been made by the provincial and municipal governments to further reduce those property tax gaps. With the aim of reaching as many small business property owners as possible, this report includes the tax gaps of 230 municipalities², based on population size and the availability of property tax data.

Some municipalities included the breakdown of specific tax rates for each municipal service provided or for a Business Improvement Area (BIA) tax on specific areas within the municipality, while other municipalities reported the total tax rate, combining all of the separate service tax rates. Given that the purpose of this report is to compare the tax gap between what most businesses and residents would pay, tax rates for services levied in the entire municipality were used, and any area- or street-specific tax rates were not included. Where a larger municipality levied different property tax rates for specific wards, the downtown or urban area was used (and noted) in order to include the most widely applicable data for businesses and residents. Final 2013 property tax rates were used to ensure completeness of comparable tax data for a full tax year and all tax gaps have been rounded to the nearest two decimal places.

Business Education Taxes (BET)

Recognizing the unfairness of the education tax burden on businesses, over the years, CFIB made numerous recommendations to the provincial government to more fairly apply property taxes to business properties. The government responded, and in the 2007 Budget, announced a \$540 million cut to education rates tax for commercial and industrial properties over seven years – lowering the highest education tax rates to a target maximum of 1.60 per cent of property value by 2014³. The education tax rate reductions were a key element in the government’s overall strategy to enhance Ontario’s investment climate. However, the reduction plan was frozen in the beginning of 2013, when the government announced that it would resume education tax rate reductions after it balances the budget – which is anticipated in 2017-18⁴.

The 2008 Ontario Budget then announced an accelerated education tax rate reduction plan for commercial and industrial properties in Northern Ontario⁵, recognizing the unique challenges faced by businesses in this part of the province and responding to recommendations made by CFIB. It ensured that these businesses benefited from the full education tax rate reduction by 2010, four years earlier than originally planned for the rest of the municipalities in Ontario.⁶

Table 1 compares the original reduction plan for all of Ontario announced in 2007 with the accelerated plan for Northern Ontario announced in 2008. It shows that in 2010, Northern Ontario properties benefited from a ceiling rate of 1.60 per cent compared to 2.20 per cent and 2.50 per cent for commercial and industrial properties respectively, in the rest of Ontario.

Table 1:

BET Reduction Schedule for Ontario and Accelerated BET Reduction Schedule for Northern Ontario

Year	Originally Announced Schedule for all of Ontario (2007 Budget) (%)		Accelerated Schedule for Northern Ontario Properties (2008 Budget) (%)	
	Annual Commercial Ceiling Rate	Annual Industrial Ceiling Rate	Annual Commercial Ceiling Rate	Annual Industrial Ceiling Rate
2008	2.50	3.00	2.35	2.75
2009	2.35	2.75	2.05	2.30
2010	2.20	2.50	1.60	1.60
2011	2.05	2.25	1.60	1.60
2012	1.90	2.00	1.60	1.60
2013	1.75 (On hold)	1.75 (On hold)	1.60	1.60
2014	1.60 (On hold)	1.60 (On hold)	1.60	1.60

Source: Government of Ontario, 2008 Budget, Tax Support for Families and Business

Highest and Lowest Education Tax Gaps

Education taxes continue to represent a significant imbalance in the property tax system, with some commercial property owners paying almost **eight times** more than residential property owners and some industrial property owners paying **seven and a half times** more than residential property owners in 2013. The next four tables display the five highest and five lowest commercial to residential and industrial to residential education property tax gaps in 2013 of the 230 municipalities examined in this report. They also show the 2009 tax gap for comparison purposes and the amount of education taxes paid per \$100,000 of assessed property value for residential and commercial or industrial properties in 2013.

Table 2:

Highest 5 Education Tax Gaps (Commercial to Residential) and Education Taxes Paid per \$100,000 of Assessed Value, 2013

Municipality	2013 Commercial to Residential Gap	2009 Commercial to Residential Gap	2013 Education Taxes (\$) per \$100,000 Property Value	
			Residential	Commercial
Mono	7.95	5.12	212	1,685
London Kitchener Windsor ⁷	7.03	9.13 7.55 7.15	212	1,490
Petawawa Laurentian Valley Renfrew ⁸	7.02	6.83 N/A 6.83	212	1,489
Peterborough	6.97	7.16	212	1,477
Quinte West (Ward 1)	6.91	7.03	212	1,464

Methodological note: Ratios displaying more than one municipality display the three largest municipalities based on population listed. Please refer to endnotes for the full list of municipalities. N/A is indicated where a municipality was not included in the 2010 report.

In 2013, Mono had the highest commercial to residential education tax gap out of all the municipalities examined in this report (see Table 2). Residential property owners paid \$212 in education property taxes on every \$100,000 of assessed property value, while commercial property owners paid \$1,685 for the same property value. Thus, commercial property owners paid almost **eight times** more in education property taxes than residential property owners. What's more, the education tax gap increased significantly over the last four years from 5.12 in 2009 to 7.95 in 2013, meaning the property tax disparity between commercial and residential property owners was higher in 2013, compared to 2009.

The second highest commercial to residential education tax gap included a number of municipalities (54 out of the 230 examined in this report). The largest municipalities included London, Kitchener and Windsor, where commercial property owners paid over **seven times** more in education property taxes than residential property owners. This resulted in commercial property owners in these municipalities paying \$1,490 on every \$100,000 of assessed property valued, compared to \$212 paid by residential property owners.

Table 3:

Lowest 5 Education Tax Gaps (Commercial to Residential) and Education Taxes Paid per \$100,000 of Assessed Value, 2013

Municipality	2013 Commercial to Residential Gap	2009 Commercial to Residential Gap	2013 Education Taxes (\$) per \$100,000 Property Value	
			Residential	Commercial
Seguin	2.88	2.69	212	611
Calvin	2.92	2.98	212	619
Magnetawan	3.07	3.30	212	652
Huntsville Bracebridge (Urban) Gravenhurst ⁹	3.14	2.99 2.99 2.99	212	665
Prince Edward County	3.64	3.59	212	772

Methodological Note: Ratios displaying more than one municipality display the three biggest municipalities based on population listed. Please refer to endnotes for the full list of municipalities.

Even in municipalities with the lowest commercial to residential education tax gaps, such as Seguin, commercial property owners still paid **over two and a half times** more than what residential property tax payers paid (see Table 3). Furthermore, the education tax gap increased from 2.69 in 2009 to 2.88 in 2013, meaning the commercial to residential tax gap disparity has worsened over the last four years. In 2013, commercial property owners in Seguin paid \$611 in education property taxes on every \$100,000 of assessed value, while residents paid just \$212.

The second lowest education tax gap was in Calvin, where commercial property owners were taxed 2.92 times more than residential property owners. Accordingly, residential property owners paid \$212 on every \$100,000 of assessed property value compared to \$629 paid by commercial property owners.

It is important to note that the lowest five education tax gaps all belonged to municipalities in Northern Ontario, which have benefited from the province's accelerated reduction plan.

Table 4:

Highest 5 Education Gaps (Industrial to Residential) and Education Taxes Paid per \$100,000 of Assessed Value, 2013

Municipality	2013 Industrial to Residential Gap	2009 Industrial to Residential Gap	2013 Education Taxes (\$) per \$100,000 Property Value	
			Residential	Commercial
Ottawa		8.57		
London	7.50	10.71	212	1,590
Kitchener ¹⁰		9.64		
Oakville		7.38		
Burlington (Urban) Milton (Urban) ¹¹	7.41	7.38 7.38	212	1,571
Galway-Cavandish Harvey	7.36	8.86	212	1,560
Smith Falls	7.13	10.20	212	1,512
Mississauga		6.67		
Brampton	6.60	6.67	212	1,399
Caledon		6.67		

Methodological note: Ratios displaying more than one municipality show the largest biggest municipalities based on population listed. Please refer to endnotes for the full list of municipalities.

Since 2007, the provincial government has streamlined many of the education tax rates. For example, the highest education tax gap for industrial to residential properties was 7.50 and was levied in 158

out of the 230 municipalities examined in this report. The largest of these municipalities included Ottawa, London and Kitchener, where industrial property owners paid \$1,590 on every \$100,000 of assessed property value compared to \$212 paid by residential property owners (see Table 4).

The second highest education tax gap reviewed in this report belonged to municipalities such as Oakville, Burlington and Milton, where industrial property owners were charged 7.41 times more than residential property owners or \$1,571 on every \$100,000 of assessed property value compared to \$212 charged to residential property owners.

Table 5:

Lowest 5 Education Gaps (Industrial to Residential) and Education Taxes Paid per \$100,000 of Assessed Value, 2013

Municipality	2013 Industrial to Residential Gap	2009 Industrial to Residential Gap	2013 Education Taxes (\$) per \$100,000 Property Value	
			Residential	Industrial
Perry	2.93	3.06	212	622
Parry Sound	3.12	3.00	212	662
Magnetawan	3.74	3.66	212	792
Huntsville		3.75		
Bracebridge (Urban)	3.93	3.75	212	833
Gravenhurst ¹²		3.75		
Shuniah	4.16	8.93	212	882

Methodological note: Ratios displaying more than one municipality show the three biggest municipalities based on population listed. Please refer to endnotes for the full list of municipalities.

The lowest industrial to residential education tax gap in 2013 was in Perry, with a tax gap of 2.93, where industrial property owners paid \$622 on every \$100,000 of assessed property value, while residential property owners paid almost **three times less**: \$212 (see Table 5).

The second lowest education tax gap was in Parry Sound, where industrial property owners paid **over three times more** than residential property owners, or \$662 compared to \$212 for each \$100,000 of assessed property value.

The lowest five education tax gaps for industrial to residential properties examined were all in Northern Ontario as well.

Municipal Property Taxes

As the primary source of revenue, municipalities rely far too much on property taxes to fund local services. Despite the fact that these services are primarily consumed by residents, businesses pay a larger share of the property tax bill, which represents an uneven distribution of the property tax load.

Property taxes are not the only tool municipalities can use to generate revenues. Some municipalities charge user fees for services related to properties instead of including them in the property tax rate, such as streetlight fees charged in Brockville and snow removal fees charged in Kitchener. These fees are determined based on the usage of the service and not on the assessed property value, which has no relationship to providing these services. User fees are a more transparent and equitable tool than property taxes because there is a direct relationship between the amount in user fees paid and the cost of the services received. However, only three per cent of the municipalities reviewed in this report (7 out of 230) employed user fees for property related services.

Another way to correct the imbalanced property tax load would be to implement a “hard cap” policy that imposes a ceiling on commercial and industrial property tax rate increases based on the municipal average across all property classes. A “hard cap” would ensure that a shift of the heavier tax burden would fall more proportionately within all tax classes. This policy was employed by the provincial government between 2001 and 2004, where if the tax gap exceeded the provincial average, tax increases were not permitted to exceed more than 5 per cent for those property classes.¹³ In 2004, however, the “hard cap” policy was amended and municipalities were provided with more autonomy to increase tax gaps between residential and commercial or industrial properties.

Highest and Lowest Municipal Property Tax Gaps

The next four tables below show the five highest and five lowest 2013 municipal property tax gaps for commercial to residential and industrial to residential properties. They also show the 2009 tax gaps and the amount paid per \$100,000 of assessed value for each property class.

Table 6:

Highest 5 Municipal Property Tax Gaps (Commercial to Residential) and Municipal Property Taxes Paid per \$100,000 of Assessed Value, 2013

Municipality	2013 Commercial to Residential Gap	2009 Commercial to Residential Gap	2013 Municipal Property Taxes (\$) per \$100,000 Property Value	
			Residential	Commercial
Toronto (Band 1)	2.77	3.28	534	1,478
Kirkland Lake	2.33	2.21	2,597	6,041
Sudbury, Greater City of (City of Sudbury)	2.19	1.89	1,301	2,846
Sault Ste Marie (Urban)	2.03	1.76	1,579	3,198
Windsor	2.00	1.98	1,652	3,310

The City of Toronto had the highest municipal commercial to residential tax gap. Commercial property owners paid 2.77 times more than residential property owners, or \$1,672 per \$100,000 of assessed property value compared to \$534 paid by residential property owners (see Table 6). The City has recognized the negative impact a high property tax gap has on economic growth, and has taken steps to reduce it since 2005 (see the Box 2 below).

Contrastingly, the second highest municipal tax gap was in Kirkland Lake at 2.33, which has actually increased since 2009. Not only does this mean that businesses paid at least twice as much as what residents paid for the same property value, but their share of the municipal tax bill was higher in 2013 than in 2009. Ultimately, in all of the municipalities identified in Table 6, commercial property owners paid at least twice as much as residential property owners.

Box 2:

Enhancing Toronto's Business Climate

In 2005, Toronto City Council adopted the *Enhancing Toronto's Business Climate* Plan – a set of business cost reduction initiatives intended to enhance the City's competitiveness over the longer term. One of the key features of the Plan was to cut the tax gap between commercial to residential and industrial to residential property classes over a 15-year period to reduce the cost of doing business and keep more businesses and jobs within the City. The City also created a sub-group within the commercial property class for properties under \$1,000,000 of assessed value (Band 1 or Small Business class), and later accelerated the reduction target. As a result, the gap between small business and residential property tax rates was to be gradually reduced from 3.75 in 2005 to 2.5 by 2015. The plan also included reductions in the industrial property tax gap from 4.09 in 2006 to 2.5 by 2020. In 2013, the commercial and industrial property tax gaps were within the prescribed ranges – at 2.77 and 3.12 respectively, meaning that the City is meeting its target reductions.

However, the question still remains – is this enough to make Toronto's business climate more competitive? As seen in Table 7, the municipalities with the highest commercial municipal property tax gaps, after Toronto, were between 2.0 to 2.33. If these municipalities maintain the current tax gap, Toronto (with a target tax gap of 2.5 in 2015) will still have the most unbalanced municipal property tax regime out of the municipalities examined. Following the municipal elections in October 2014, City Council will need to take concrete action to address this imbalance.

Source: City of Toronto, *Enhancing Toronto's Business Climate – It's Everybody's Business*, 2005.

Table 7:

Lowest 5 Municipal Property Tax Gaps (Commercial to Residential) and Municipal Property Taxes Paid per \$100,000 of Assessed Value, 2013

Municipality	2013 Commercial to Residential Gap	2009 Commercial to Residential Gap	2013 Municipal Property Taxes (\$) per \$100,000 Property Value	
			Residential	Commercial
Perry	0.83	0.83	565	470
Casey	0.88	0.88	1,161	1,018
Central Frontenac		1.00	998	998
East Ferris	1.00	N/A	698	698
South Frontenac		1.00	674	674
Blind River	1.07	1.07	1,791	1,918
Lakeshore		1.07	970	1,049
LaSalle	1.08	1.07	1,326	1,435
Leamington (Urban) ¹⁴		1.07	1,558	1,686

Methodological note: Ratios displaying more than one municipality have the three biggest municipalities based on population listed. Please refer to endnotes for the full list of municipalities. Also, N/A is indicated where municipality was not included in 2010 report.

Out of the lowest municipal property tax gaps, there were two municipalities with commercial to residential tax gaps that were less than *one*, meaning the tax gap was more favourable for commercial properties than residential properties. The commercial property tax gaps in Perry and Casey were 0.83 and 0.88, respectively with commercial property owners paying \$470 on every \$100,000 of assessed property value compared to \$565 paid by residential property owners (see Table 7). And in Casey, commercial property owners paid \$1,018 on every \$100,000 of assessed property value compared to \$1,161 paid by residential property owners.

In second place, three municipalities had municipal tax gaps equal to *one*, where commercial property owners in Central Frontenac, East Ferris and South Frontenac paid the same amount in taxes as residential property owners. This illustrates that it is possible to have parity across municipal property tax classes and that other municipalities should aim to close the gap.

Table 8:

Highest 5 Municipal Property Tax Gaps (Industrial to Residential) and Municipal Property Taxes Paid per \$100,000 of Assessed Value, 2013

Municipality	2013 Industrial to Residential Gap	2009 Industrial to Residential Gap	2013 Municipal Property Taxes (\$) per \$100,000 Property Value	
			Residential	Industrial
Pembroke	4.14	4.39	1,556	6,449
Hamilton	3.21	3.33	1,198	3,483
Sudbury, Greater City of (City of Sudbury)	3.14	2.65	1,301	4,087
Toronto	3.12	3.56	534	1,666
Russell	3.09	N/A	1,021	3,150

Methodological note: N/A is indicated where a municipality was not included in 2010 report.

In over half (119 out of 230) of the municipalities reviewed in this report, industrial property owners paid at least **twice as much** in municipal property taxes than residential property owners - with some industrial property owners paying **over four times** more.

When looking at the five highest municipal industrial to residential tax gaps, the difference is tremendous. Pembroke, with a gap of 4.14, had the highest tax gap in 2013. Industrial property owners paid \$6,449 in municipal property taxes compared to residential property owners who paid \$1,556 (see Table 8).

The second highest municipal tax gap was in Hamilton, where industrial property owners paid 3.21 times more than residential property owners. For every \$100,000 of assessed property value, industrial property owners paid \$3,483 and residential property owners paid just \$1,198.

Table 9:

Lowest 5 Municipal Property Tax Gaps (Industrial to Residential) and Municipal Property Taxes Paid per \$100,000 of Assessed Value, 2013

Municipality	2013 Industrial to Residential Gap	2009 Industrial to Residential Gap	2013 Municipal Property Taxes (\$) per \$100,000 Property Value	
			Residential	Industrial
Perry	0.72	0.72	565	405
South Frontenac		1.00	674	674
East Ferris	1.00	N/A	698	698
Central Frontenac ¹⁵		1.00	998	998
Huntsville		1.10	956	1,051
Bracebridge (Urban)	1.10	1.51	1,050	1,155
Gravenhurst ¹⁶		1.36	990	1,090
Deseronto		1.13	1,465	1,655
Limerick	1.13	1.13	978	1,104
Arran-Elderslie	1.14	N/A	1,138	1,293

Methodological note: Ratios displaying more than one municipality show the three biggest municipalities based on population listed. Please refer to endnotes for the full list of municipalities. Also, N/A is indicated where municipality was not included in the 2010 report.

The lowest municipal industrial to residential tax gap in 2013 was in Perry with a tax gap of 0.72 (see Table 9). In fact, it was even lower than the municipality's commercial to residential tax gap of 0.83, indicating that Perry is likely trying to create favourable conditions to attract more industrial properties within its borders. Industrial property owners paid \$405 in property taxes on every \$100,000 of assessed property value, compared to the \$565 residential property owners paid.

South Frontenac, East Ferris, and Central Frontenac had the next lowest municipal tax gap, of 1.00, where industrial property owners had the same tax rate as residential property owners, demonstrating an equal distribution between industrial and residential property classes.

Total Tax Gaps

The next four tables examine total property tax gaps for both commercial and industrial property classes and exemplifies the burden on business properties from both levels of government. The tables below also display the 2009 tax gaps and the amount in taxes paid per \$100,000 of assessed value.

Table 10:

Highest 5 Total Property Tax Gaps (Commercial to Residential) and Total Property Taxes Paid per \$100,000 of Assessed Value, 2013

Municipality	2013 Commercial to Residential Gap	2009 Commercial to Residential Gap	2013 Municipal Property Taxes (\$) per \$100,000 Property Value	
			Residential	Commercial
Toronto	3.81	4.42	746	2,842
McKellar	3.17	2.22	648	2,056
Petawawa	3.12	3.11	846	2,639
North Dumfries	3.06	N/A	967	2,961
Woolwich	3.01	3.20	1,019	3,064

Methodological note: N/A is indicated where a municipality was not included in 2010 report.

Of all the municipalities examined in this report, the City of Toronto had the highest total commercial to residential tax gap. Commercial property owners paid 3.81 times more than residential property owners, or \$1,672 per \$100,000 of assessed property value compared to the \$746 paid by residents (see Table 10).

Commercial property owners in McKellar were subject to the second highest total commercial to residential tax gap at 3.17. This translated into \$2,056 for every \$100,000 in assessed property value contrasted by the \$648 that residential owners paid on the same value.

Table 11:

Lowest 5 Total Property Tax Gaps (Commercial to Residential) and Total Property Taxes Paid per \$100,000 of Assessed Value, 2013

Municipality	2013 Commercial to Residential Gap	2009 Commercial to Residential Gap	2013 Municipal Property Taxes (\$) per \$100,000 Property Value	
			Residential	Commercial
Manitouwadge	1.25	1.38	6,918	8,637
Casey	1.33	1.53	1,373	1,825
Bracebridge (Urban)	1.44	1.77	1,262	1,820
Gravenhurst	1.46	1.67	1,202	1,755
Huntsville	1.47	1.85	1,168	1,716

At 1.25, Manitouwadge had the lowest total property tax gap in the commercial property class, where commercial properties were taxed \$8,637 for every \$100,000 in property value compared to \$6,918 for residential properties.

Casey levied the second lowest total commercial to residential tax gap at 1.33. In 2013, commercial property owners paid \$1,825 on every \$100,000 of assessed property value, compared to \$1,373 paid by residential property owners.

Table 12:

Highest 5 Total Property Tax Gaps (Industrial to Residential) and Total Property Taxes Paid per \$100,000 of Assessed Value, 2013

Municipality	2013 Industrial to Residential Gap	2009 Industrial to Residential Gap	2013 Municipal Property Taxes (\$) per \$100,000 Property Value	
			Residential	Industrial
Pembroke	4.55	5.21	1,768	8,039
Toronto	4.10	4.69	746	3,055
Petawawa	4.06	4.78	846	3,435
McNab Braeside	3.92	N/A	988	3,871
East Hawkesbury	3.88	4.11	1,153	4,479

Methodological note: N/A is indicated where a municipality was not included in 2010 report.

The highest total industrial to residential gap was in Pembroke. With a gap of 4.55, industrial property owners paid \$8,039 for every \$100,000 in assessed property value, compared to just \$1,768 for residential properties. This represents a huge imbalance which must be corrected by both levels of government.

The second highest total industrial to residential tax gap was in Toronto, where industrial property owners were taxed 4.1 times more than residential property owners. As such, residential property owners paid \$746 on every \$100,000 of assessed property value compared to \$3,055 paid by industrial property owners.

Table 12:

Lowest 5 Total Property Tax Gaps (Industrial to Residential) and Total Property Taxes Paid per \$100,000 of Assessed Value, 2013

Municipality	2013 Industrial to Residential Gap	2009 Industrial to Residential Gap	2013 Municipal Property Taxes (\$) per \$100,000 Property Value	
			Residential	Industrial
Manitouwadge	1.25	1.42	6,918	8,637
Perry	1.32	1.38	777	1,027
Bracebridge (Urban)	1.58	1.91	1,262	1,988
Gravenhurst	1.60	1.82	1,202	1,923
Huntsville	1.61	1.61	1,168	1,884

Finally, the lowest total industrial to residential gap was in Manitouwadge with a gap of 1.25. Similar to the commercial gap, industrial property owners paid \$8,637 in property taxes on every \$100,000 compared to the \$6,918 paid by residents.

The second lowest ratio belonged to Perry, where industrial property owners paid 1.32 times more than homeowners, or \$1,027 as opposed to \$777 on every \$100,000 in property value.

Clearly, there is a large disparity between the highest and lowest total property tax gaps; however, there are concrete examples which demonstrate that it is possible for municipalities and the provincial government to improve the property tax system and to make it more equitable for business property owners.

Recommendations

The analysis of property tax gaps presented in this report emphasizes previous findings that business property owners continue to pay more than their fair share of property taxes in Ontario. While the provincial and some municipal governments have taken steps to balance the inequitable property tax system, both levels of government must do more to ensure that the burden is shared equally amongst all property owners. CFIB proposes a number of recommendations to fairly distribute the property tax load:

Recommendations to the Ontario Government

- ▶ **Reinstate and accelerate BET reduction relief.** CFIB was encouraged by the province's efforts to reduce unfair education tax gaps. From the analysis presented in this report, however, it is clear that the provincial government should aim to build upon its 2007 BET reduction plan. Noting the success of the Northern Ontario accelerated reduction plan, the government should resume the reduction plan on an accelerated basis for all municipalities in Ontario and provide a schedule for future BET relief.
- ▶ **Equalize commercial and industrial BET rates across the province.** Currently, the provincial government levies different commercial and industrial education tax rates within municipalities across Ontario. Further steps should be taken to reduce the variance in commercial and industrial education tax rates, as the government has done for residential education tax rates across the province.
- ▶ **Reinstate the "hard cap" on tax rate increases on businesses.** The provincial government should revisit the original legislation (Municipal Act, 2001) that provided a hard cap on commercial and industrial property tax rates, protecting businesses from having to pay higher taxes to meet increases in municipal spending.

- ▶ **Do not provide municipalities with broader tax powers.** Small and medium-sized business owners are opposed to new municipal taxes or revenue tools, such as a municipal sales tax, a municipal income tax, or a municipal land transfer tax, among others. Expanding municipal taxing powers may lead to the misuse of public funds and there is little trust on the part of business owners and other taxpayers that the new revenues would be used for the purposes they were intended.
- ▶ **Collect property tax information from all Ontario municipalities in one public repository.** Ontario does not have one central source for current and comparable data of property tax rates. The municipal property data used in this report was gathered directly from each of the 230 Ontario municipalities that were examined. Similar to other provinces such as Saskatchewan, the provincial government, through the Ministry of Municipal Affairs and Housing or the Ministry of Finance, should establish a central repository of up-to-date property tax information for all Ontario municipalities.

Recommendations to Ontario Municipalities and Candidates for Local Government

- ▶ **Reduce the municipal tax gap between business and residential properties.** Municipalities should continue to reduce tax gaps to balance the property tax burden and encourage business investment for commercial and industrial property classes. Municipalities should also assess how all taxpayers can benefit from municipal programs and services – including small businesses, with the aim of redistributing the property tax bill equally across property classes and reducing tax gaps.
- ▶ **Adopt a “user fee” philosophy.** Any introduction or increase in user-fee arrangements should be met with a commensurate reduction in property tax rates. Holding those who consume municipal services responsible for paying for those services would eliminate inefficient cross-subsidization by one property class in favour of another.
- ▶ **Introduce a “hard cap” on tax rate increases on businesses.** Municipalities should take the lead on introducing hard caps within their jurisdictions in order to combat the inequalities that business property owners face. Similar to the provincial “hard cap” implemented between 2001 and 2004, municipalities should require that the tax gaps not be permitted to increase if they are above the municipal average across all classes. This would protect commercial and industrial property owners from unfair increases in property tax rates, and would more evenly distribute the property tax burden.

Endnotes

¹ Federation of Canadian Municipalities, *The State of Canada's Cities and Communities*, 2012.

² The total number of municipalities examined in this report is 230, including 30 additional municipalities over the 2010 report. Kawartha Lakes was included in the 2010 report; however, it was not included in this report due to wide variations in tax rates within the municipality.

³ Government of Ontario, *2007 Budget*.

⁴ Government of Ontario, *2012 Budget*.

⁵ Government of Ontario, *2008 Budget*; Northern Ontario municipalities lie within the following districts: Algoma, Cochrane, Kenora, Manitoulin, Nipissing, Parry Sound, Rainy River, Sudbury, Thunder Bay and Temiskaming.

⁶ Government of Ontario, *2008 Budget*.

⁷ Includes the following 54 municipalities: Belleville (Urban), Brant County, Bradford, Brighton, Brockville, Cambridge, Central Frontenac, Chatham-Kent (Downtown), Cobourg, Cornwall, Cramahe (Urban), East Zorra-Tavistock, Gananoque, Georgian Bluffs, Hanover, Ingersoll, Kingston (Central), Kitchener, Lambton Shores, London, Loyalist, Meaford, Napanee (Urban), Norfolk County, North Dumfries, North Dundas, North Glengarry, Owen Sound, Pembroke, Petrolia, Port Hope (Ward 1), Prescott, Sarnia, Smith Falls, South Frontenac, South Glengarry, South Stormont, Southgate, South-West Oxford, St. Clair (Ward 2), St. Thomas, Stratford, The Blue Mountains, Tilsonburg, Trent Hills, Warwick, Waterloo, Wellesley, West Grey, Wilmot, Windsor, Woodstock, Woolwich, Zorra.

⁸ Includes the following 7 municipalities: Arnprior, Deep River, Laurentian Valley, Madawaska Valley, McNab Braeside, Petawawa, Renfrew.

⁹ Includes the following 5 municipalities: Bracebridge (Urban), Gravenhurst, Huntsville, Lake of Bays (Franklin), Muskoka Lakes (Port Carling).

¹⁰ Includes the following 158 municipalities: Ajax, Amherstburg, Arnprior, Asphodel-Norwood, Augusta, Aylmer, Bayham, Belleville (Urban), Bradford West Gwillimbury, Brant County, Brantford, Brighton, Brock, Brockton, Brockville, Cambridge, Carleton Place, Cavan-Monaghan (Cavan Ward), Central Elgin, Central Frontenac, Centre Wellington, Champlain, Chatham-Kent (Downtown), Clarence-Rockland, Clarington, Clearview, Cobourg, Collingwood, Cornwall, Cramahe (Urban), Deep River, Douro-Dummer, East Hawkesbury, East Zorra-Tavistock, Elizabethtown-Kitley, Erin, Essa, Essex (Ward 1), Fort Erie, Gananoque, Georgian Bluffs, Grimsby, Guelph, Guelph/Eramosa, Haldimand County, Hanover, Hawkesbury, Huron-Kinloss, Ingersoll, Innisfil, Kincardine, Kingston (Central), Kingsville, Kitchener, Lakeshore, Lambton Shores, Lanark Highlands, LaSalle, Laurentian Valley, Leamington (Urban), Leeds and the Thousand Islands, Lincoln, London, Loyalist, Lucan Biddulph, Madawaska Valley, Malahide, Mapleton, McNab Braeside, Meaford, Middlesex Centre, Midland, Minto (Urban), Mississippi Mills, Mono, Mulmur, Napanee (Urban), New Tecumseth, Niagara Falls (Urban), Niagara-on-the-Lake (Urban), Norfolk County, North Dumfries, North Dundas, North Glengarry, North Grenville, North Kawartha, North Middlesex, North Perth, Orangeville, Orillia (Low Band), Oro-Medonte, Oshawa, Ottawa, Owen Sound, Pelham, Pembroke, Penetanguishene, Perth, Petawawa, Peterborough, Petrolia, Port Colborne, Port Hope (Ward 1), Prescott, Prince Edward County, Puslinch, Quinte West (Ward 1), Ramara, Renfrew, Rideau Lakes, Russell, Sarnia, Saugeen Shores, Scugog, Selwyn (Ward 3), Severn, Shelburne, South Bruce, South Bruce Peninsula, South Frontenac, South Glengarry, South Stormont, Southgate, Springwater, St. Catherines (Urban), St. Clair (Ward 2), St. Marys, St. Thomas, Stratford, Strathroy-Caradoc, Tay, Tecumseh, Thames Centre, The Blue Mountains, The Nation, Thorold (Urban), Tilsonburg, Tiny, Trent Hills, Uxbridge, Wainfleet, Warwick, Wasaga Beach, Waterloo, Welland, Wellington North (Urban), West Elgin, West Grey, West Lincoln (Urban), West Perth, Whitby, Wilmot, Windsor, Woodstock, Woolwich, Zorra.

¹¹ Includes the following 4 municipalities: Burlington (Urban), Halton Hills (Urban), Milton (Urban), Oakville.

¹² Includes the following 5 municipalities: Bracebridge (Urban), Gravenhurst, Huntsville, Lake of Bays (Franklin), Muskoka Lakes (Port Carling).

¹³ Municipal Act, 2001, S.O. 2001, c. 25, Para 329. (1) 1.ii.

¹⁴ Includes the following 8 municipalities: Amherstburg, Essex (Ward 1), Kingsville, Lakeshore, LaSalle, Leamington (Urban), Seguin, Tecumseh.

¹⁵ Includes the following 4 municipalities: Central Frontenac, East Ferris, South Frontenac, Temagami.

¹⁶ Includes the following 12 municipalities: Bluewater, Bracebridge (Urban), Casey, Goderich, Gravenhurst, Howick, Huntsville, Lake of Bays (Franklin), Magnetawan (Map Division 010, 030, 040), Manitouwadge, Muskoka Lakes (Port Carling), South Huron (Ward 2).

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