

**NEW PROPERTY TAX CAPPING OPTIONS FOR 2005**

**Recommendation**

The Director of Finance, in consultation with the Manager of Property Tax & Assessment recommends:

- 1) That Council receive this report outlining the Region of York recommendations; and
- 2) That Council note that City of Vaughan Finance staff participated in developing and support this recommendation.

**Purpose**

As reported to Council in May of last year, the 2004 Provincial budget introduced new options relating to the capping and clawback of properties in the commercial, industrial and multi-residential (business class) properties. The purpose of this report is to provide Council with background information related to the capping options and the Region of York's recommendation.

**Background - Analysis and Options**

Decisions relating to the capping and clawback are the responsibility of the Region of York (the upper tier); however, committees of the local municipal Treasurers and the local municipal property tax staff were involved in the analysis and report recommendations that are going forward to York Region Finance & Administration Committee on April 7, 2005.

Business class properties have been protected from large assessment related tax increases since 1998. Protection was introduced at 10% for 1998 and 5% for 1999 through to 2004. In addition, effective in 2001, all "new construction" and "new to class" properties have also been protected. The result of this legislated protection is that properties are not progressing toward full taxation based on their Current Value Assessment (CVA) as quickly, as anticipated. As of 2004 less than 10% of commercial properties, less than 12% of industrial properties and less than 9% of multi-residential properties are paying full CVA taxes. The Province recognized this and has therefore provided new capping tools.

**New Capping Tools:**

As indicated above, as a result of this slow progression to CVA taxation, the following tools provide some new options effective for 2005:

- The amount of the cap can be increased up to 10%, from the current 5%, of the prior year capped taxes.
- A minimum cap of 5% of the prior year CVA tax can be implemented.
- Properties that would receive a cap credit of \$250 or less can be moved directly to CVA tax.
- Properties that would be subject to a clawback of \$250 or less can be moved directly to CVA tax.
- New Construction and New to Class properties that would be protected through a review of comparable properties can be limited to a tax level of 70% of their CVA tax for 2005, and this percent may rise by 10% a year, to 80% for 2006, 90% for 2007 and then 100% for 2008 and beyond.

All of these options may be used singularly or in combination with the other options.

### Regional Recommendation:

Based on detailed analysis of the new tools, and with the participation and concurrence of the local municipal Treasurers and property tax staff, the Region is recommending that we continue to encourage the movement of capped properties to their full CVA level taxation by applying a combination of all the above available tools provided by the Province.

It is also being recommended that a minimum percentage of 70% of CVA level taxes be established for new construction and new-to-class properties starting in 2005, and that the percentage increase by the maximum of 10% each year until it reaches full CVA taxation as outlined in the above Provincial legislation.

### Impacts:

Based on the above recommendations, the analysis shows that applying all the new optional tools to the City of Vaughan business class properties results in an increase in the number of properties that will be taxed more appropriately at CVA level taxation. The impact is that commercial properties at CVA taxation increase from 10% to 64%, industrial from 12% to 46% and multi-residential from 9% to 30%. It is also important to note that as a result of the recommended new tools that some of those properties that should be experiencing a decrease in taxation will now get the benefit of paying taxes based on their CVA or a lower clawback percentage.

The tax revenue that is not collected from protected or capped properties is recovered from properties that should be receiving tax decreases (clawback). When there are insufficient decreases available across the Region to fund the protection in a particular class, there is a shortfall that is funded jointly by the Region and all the local municipalities.

In 2004 there was a shortfall in multi-residential class and a repeat was expected in 2005, however, the optional recommended tools will now eliminate that shortfall. This formula is applied across the Region, which also results in some properties paying more than CVA tax, to fund capping in other local municipalities. The recommended combination of all the tools will now lower the clawback percentage by approximately 10% in the commercial class, 14% in the industrial class and 2% in the multi-residential class when compared to not using the optional tools.

### Achieving Full CVA Level Taxation:

Starting in 2006, all properties will be reassessed annually. During the past 8 years, while capping and clawback has been in effect, there were 3 province-wide general reassessments. What has become obvious is that any movement towards CVA taxes can often be undone following a reassessment. The objective of moving properties to CVA taxes is simply the attempt to achieve taxpayer fairness by removing the inequities that currently exist in the business classes. This legislation begins that process.

Fair treatment of taxpayers in the business classes could be more consistently achieved if municipalities could be assured that once a property reaches its CVA level taxes it then would remain at CVA taxes for future reassessments. The current legislation stopped short of providing that assurance. It is therefore also being recommended that Regional Council request the Province to permit municipalities to exclude properties in the business classes that have reached CVA level taxation from future capping and clawback.

The Association of Municipal Tax Collectors of Ontario (AMTCO) has recently passed a resolution in this regard, which could be brought forward to Council for consideration.

**Relationship to Vaughan Vision 2007**

This report is consistent with the priorities previously set by Council and the necessary resources have been allocated and approved.

**Conclusion**

City Finance staff agree with the Region of York's recommendation to implement a combination of all the available Provincial optional tools which will expedite the movement of business class properties to full taxation based on current value assessment.

**Attachments**

None

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