

SUBJECT: Small Business Property Tax Subclass

File Number ACS2021-FSD-REV-0006

Report to Finance and Economic Development Committee on 5 October 2021

and Council 13 October 2021

**Submitted on September 23, 2021 by Joseph Muhuni, Acting Deputy City
Treasurer, Revenue**

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Ward: CITY WIDE / À L'ÉCHELLE DE LA VILLE

OBJET : Sous-catégorie d'imposition foncière pour les petites entreprises

Dossier : ACS2021-FSD-REV-0006

Rapport au Comité des finances et du développement économique

le 5 octobre 2021

et au Conseil le 13 octobre 2021

**Soumis le 23 septembre 2021 par Joseph Muhuni, Trésorier municipal adjoint par
intérim, Recettes**

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REPORT RECOMMENDATION(S)

**That the Finance and Economic Development Committee recommend that
Council:**

- 1. Adopt the optional Small Business Property Tax Subclass for the 2022
taxation year and subsequent years, based on the criteria outlined in the**

report;

2. **Adopt a 15% discount for the Commercial and Industrial Small Business Property Tax Subclass, phased in equally over two years starting in the 2022 taxation year;**
3. **Eliminate Commercial and Industrial Excess Land Property Tax Subclass discount, phased out equally over two years starting in the 2022 taxation year;**
4. **Direct the Deputy City Treasurer, Revenue Services, to apply to the Government of Ontario to match the Small Business Property Tax Subclass discount approved by Council on the Small Business Tax Subclass Business Education Tax rate; and**
5. **Appoint an Appellate Authority and Program Administrator for the Small Business Property Tax Subclass, per the Small Business Property Tax Subclass Regulation, as outlined in the report.**

RECOMMANDATIONS DU RAPPORT

Que le Comité des finances et du développement économique recommande au Conseil :

1. **d'adopter la sous-catégorie d'imposition foncière optionnelle pour les petites entreprises pour l'année d'imposition 2022 et les années suivantes, en fonction des critères énoncés dans le rapport;**
2. **d'adopter un rabais de 15 % pour la sous-catégorie d'imposition foncière pour les petites entreprises commerciales et industrielles, en étalant la réduction en parts égales sur deux ans à compter de l'année d'imposition 2022;**
3. **d'éliminer le rabais de la sous-catégorie d'imposition foncière pour les terrains commerciaux et industriels excédentaires, en étalant l'élimination en parts égales sur deux ans à compter de l'année d'imposition 2022;**
4. **d'ordonner au trésorier municipal adjoint, Services des recettes, de demander au gouvernement de l'Ontario d'égaliser le rabais approuvé par le Conseil pour le taux d'imposition scolaire des entreprises dans la sous-catégorie d'imposition foncière pour les petites entreprises.**

- 5. de nommer un organe d'appel et un administrateur de programme pour la sous-catégorie d'imposition foncière pour les petites entreprises, conformément au règlement, comme indiqué dans le rapport.**

EXECUTIVE SUMMARY

The purpose of this report is to provide final recommendations on the optional Small Business Property Tax Subclass and the phasing out of the optional Excess Land Property Tax Subclass. The report defines small businesses based on property use and property size. Commercial and industrial properties that meet the proposed definition will be classified as Small Business properties and receive the Small Business Tax Subclass reduction in the form of a discount on their tax rate.

To cover the discount cost, staff recommend eliminating the Excess Land Tax Subclass discount and a slight increase in taxes to the residual commercial and industrial properties that do not receive the discount to maintain overall revenues neutral. The recommendations in this report will form part of the City's long-term annual property taxation policy.

Staff recommend a 15% discount on all properties that meet the definition of the optional Small Business Tax Subclass, to be phased in at a rate of 7.5% over two years starting in 2022. Further, staff recommend eliminating the 30% Excess Land discount for commercial properties (35% for industrial properties), to be phased out over two years starting in 2022.

Assumptions and Analysis

Small businesses are a driving force of our local economy. They are important sources of employment for our residents, and they provide diversity in the products and services offered in our city. Small businesses are located throughout the city on traditional main streets, in small suburban strip malls, and in our rural communities. By adopting the Small Business Tax Subclass and providing a discounted tax rate, the City will provide long-term financial relief and ensure equity in taxation of small businesses, regardless of the property in which they are located. While the ongoing COVID-19 pandemic has impacted many small businesses, this discount is not intended to be a COVID-19 business recovery mechanism, but rather form part of the City's long-term annual property taxation policy.

Financial Implications

Staff have completed an in-depth analysis of the financial implications of adopting the

optional Small Business Tax Subclass and estimate that 5,800 properties, or an estimated 10,000 small businesses, will benefit from the discount based on the proposed small business definitions. The total discount to small business properties is approximately \$9.9 million annually in municipal taxes. The discount will be offset by eliminating the Excess Land subclass and a slight increase to the residual commercial and industrial broad class properties that will not receive the discount.

Public Consultation

Since Council's approval of the optional Small Business Tax Subclass framework in April 2021, staff have held regular and ongoing consultations with key business stakeholders. These include the Ottawa Coalition of Business Improvement Areas (OCOBIA), the Ottawa Board of Trade (OBOT), Regroupement des gens d'affaires (RGA) and the Building Owners and Managers Association (BOMA). Staff considered the feedback received from stakeholders during these consultations in developing the final recommendations for this regime.

RÉSUMÉ

L'objectif de ce rapport consiste à fournir des recommandations finales sur la sous-catégorie d'imposition foncière optionnelle pour les petites entreprises et sur l'élimination progressive de la sous-catégorie d'imposition foncière optionnelle pour les terrains excédentaires. Le rapport définit les petites entreprises en fonction de l'utilisation et de la taille de la propriété. Les propriétés commerciales et industrielles qui répondent à la définition proposée seront catégorisées comme des propriétés de petites entreprises et jouiront du rabais de la sous-catégorie d'imposition foncière pour les petites entreprises sous la forme d'un rabais sur leur taux d'imposition.

Pour couvrir le coût du rabais, le personnel recommande d'éliminer le rabais de la sous-catégorie d'imposition foncière pour les terrains excédentaires et d'augmenter légèrement les impôts sur les propriétés commerciales et industrielles résiduelles qui ne bénéficient pas du rabais afin de maintenir la neutralité des recettes globales. Les recommandations de ce rapport feront partie de la politique fiscale annuelle à long terme de la Ville.

Le personnel recommande un rabais de 15 % sur toutes les propriétés qui répondent à la définition de la sous-catégorie d'imposition foncière optionnelle pour les petites entreprises, à appliquer progressivement à un taux de 7,5 % sur deux ans à compter de 2022. En outre, le personnel recommande de supprimer le rabais de 30 % sur les terrains excédentaires pour les propriétés commerciales (35 % pour les propriétés

industrielles), ce rabais devant être éliminé progressivement sur deux ans à compter de 2022.

Hypothèses et analyse

Les petites entreprises représentent un élément moteur de notre économie locale. Elles constituent d'importantes sources d'emploi pour nos résidents et apportent de la diversité dans les produits et services offerts dans notre Ville. Les petites entreprises sont réparties dans toute la Ville, dans les rues principales traditionnelles, dans les petits centres commerciaux de banlieue et dans nos communautés rurales. En adoptant la sous-catégorie d'imposition foncière pour les petites entreprises et en offrant un taux d'imposition réduit, la Ville apportera un soulagement financier à long terme et assurera l'équité en ce qui concerne l'imposition des petites entreprises, quelle que soit la propriété où elles sont situées. Bien que la pandémie actuelle de COVID-19 ait eu un impact sur de nombreuses petites entreprises, ce rabais n'est pas destiné à être un mécanisme de relance pour ces dernières, mais plutôt à faire partie de la politique d'imposition foncière à long terme de la Ville.

Implications financières

Le personnel a effectué une analyse approfondie des implications financières de l'adoption de la sous-catégorie d'imposition foncière optionnelle pour les petites entreprises et estime que 5 800 propriétés, soit environ 10 000 petites entreprises, bénéficieront de la réduction sur la base des définitions proposées pour ces dernières. Le rabais total pour les propriétés des petites entreprises sera d'environ 9,9 millions de dollars par an en impôts municipaux. Le rabais sera compensé par l'élimination de la sous-catégorie pour les terrains excédentaires et par une légère augmentation pour les propriétés de la catégorie élargie des propriétés commerciales et industrielles résiduelles qui ne bénéficieront pas du rabais.

Consultation publique

Depuis l'approbation par le Conseil du cadre de la sous-catégorie d'imposition foncière optionnelle pour les petites entreprises en avril 2021, le personnel a tenu des consultations régulières et continues avec les principales parties prenantes du monde des affaires. Nous avons notamment consulté l'Ottawa Coalition of Business Improvement Areas (OCOBIA), l'Ottawa Board of Trade (OBOT), le Regroupement des gens d'affaires (RGA) et la Building Owners and Managers Association (BOMA). Le personnel a tenu compte des commentaires reçus des parties prenantes lors de ces consultations pour élaborer les recommandations finales de ce régime.

BACKGROUND

Committee and Council Report History

As part of the Government of Ontario's 2020 Budget, released in November 2020, the Province announced the optional Small Business Tax Subclass. The Province gave municipalities the ability to determine the eligibility criteria on which properties would qualify for this subclass.

On February 24, 2021, Mayor Watson put forward an inquiry ([OCC 21-01](#)) through Council asking staff to address the following items through the tax policy report. Specifically:

- How the City would define the Small Business Tax Subclass;
- What level of reductions in property taxes could eligible small businesses benefit from under this tax subclass; and
- How could these property tax reductions for small businesses be funded without shifting the burden to the residential class.

In response, staff tabled an optional Small Business Tax Subclass framework before Council through the [2021 Tax Ratios and Other Tax Policies report](#). On April 28, 2021, Council approved the framework and directed staff to further consult with stakeholders under this framework and report back with final recommendations. Staff were unable to provide final recommendations at the time primarily because the Regulations governing the optional Small Business Tax Subclass had not been released. *Assessment Act* [O. Reg. 282/98](#) as amended by [O. Reg. 331/21](#) (the "Regulation") and *Municipal Act, 2001*, [O. Reg. 73/03](#) as amended by O. Reg. 332/21 enacting the optional Small Business Tax Subclass were published by the Province in May 2021. The Regulations outline the requirements municipalities must have to adopt a Small Business Tax Subclass, the by-law requirements, and the maximum allowable tax discount.

Guiding Principles

In developing the final recommendations for the Small Business Tax Subclass regime, staff were informed by the following guiding principles approved by Council on April 28, 2021:

- Fair and Equitable – The definition must be fair and equitable in ensuring that the reduction is provided to as many small businesses as possible.

- Revenue Neutral – Lowering the tax rate for a Small Business Tax Subclass shifts the property tax burden onto other properties within the commercial and industrial classes.
- Easy to Administer – The new optional tax subclass should not create additional administrative work to the City or small business owners.

DISCUSSION

This report provides final recommendations on the establishment of a Small Business Tax Subclass in Ottawa. The report defines small businesses based on property use and property gross leasable area size. Commercial and Industrial properties that meet the proposed definition will receive the Small Business Tax Subclass reduction in the form of a discount applied to the overall tax class ratio. To offset the discount, staff recommend eliminating the Excess Land subclass discount. The remainder will be offset by residual commercial and industrial properties that do not receive the discount. These residual properties will see a slight increase in taxes to maintain overall revenues.

Provincial legislation

Municipalities can now adopt an optional Small Business Tax Subclass through changes in property taxation in the Fall 2020 Ontario Budget and subsequent Regulations. The Province does not formally define a small business in the *Municipal Act* or the *Assessment Act* in relation to property taxation. Instead, the Regulation provides each municipality with the flexibility to define which properties would qualify for the Small Business Tax Subclass. The Regulation also prescribes that certain tax property classes cannot be part of the subclass. These include Parking Lots, Vacant Land and Large Industrial property tax classes.

Small Business Discount Municipal Benchmarking

Given that the small business discount was only announced in the Fall of 2020, few municipalities are ready for implementation. Ottawa and Toronto are leading in implementing the Small Business tax subclass discount in 2022. Ottawa has closely consulted with Toronto staff to develop the Small Business Tax Subclass selection criteria and tax program. The Municipal Property Assessment Corporation (MPAC) also facilitated a Small Business Tax Subclass municipal working group over the 2021 spring and summer, culminating in a Small Business Tax Subclass white paper. The City participated in this working group to exchange ideas and best practices, being in a more

advanced stage in developing Small Business Tax Subclass criteria in Ottawa. The white paper is expected to address best practices or considerations in developing a Small Business Tax Subclass. These include overall City policy objectives for the subclass, data elements to consider, and ongoing administrative considerations. Ottawa has reviewed and addressed these best practices in developing the final recommendations outlined in this report.

Small Business Tax Subclass Policy Objective

Municipalities have been provided with the flexibility to use the Small Business Tax Subclass to meet various objectives. There are three general policy approaches municipalities can take. The subclass can be restricted to specific geographical areas to stimulate economic growth. Examples of geographic areas include traditional main streets, villages, downtown core, Business Improvement Areas, Community Improvement Areas, Innovation Districts, Business Parks, etc. The subclass could also be restricted to a geographic area to mitigate shifts in property values. The restriction to geographic areas may allow municipalities to give deeper discounts to fewer properties at a lower cost. The second policy approach provides broad relief to all small businesses across the city if they meet the small business definition. Through the 2021 Tax Policy Report, Council approved a Small Business Tax Subclass framework that provides broad relief to all small businesses across the city. Staff have developed final recommendations based on this policy objective.

Small Business Definition

A small business can be defined by the number of employees, the total annual revenue, or the total property square footage. The number of employees and revenue are not data points that the City has readily available. A small business definition, based on the number of employees and revenue, would require an application-based approach to qualify properties for the subclass. The Regulation provides the option for an application-based program that would enable staff to gather additional details from property owners to support the definition for small businesses. Staff have determined that this approach would be administratively burdensome for applicants, challenging to operationalize and costly to the City.

Staff recommend continuing with the initially proposed criteria of property use and property size. This information is readily available to the City through MPAC. The property use is included in the data the City receives annually on the assessment roll. Through supplemental MPAC data the City can access the property's size. Over the

past few months, staff have continued to review and refine the criteria presented in the initial Small Business Tax Subclass framework, defining which properties will be included in the Small Business Tax Subclass.

As part of the assessment process, MPAC determines the primary use of a property and assigns the appropriate property code. Regarding property use, staff reviewed the listing of property codes and selected a set of property codes that support the definition of a small business property. This listing includes properties whose primary use lends itself to a small business or houses small businesses such as small office, small commercial with residential, small retail, various mixed-use properties, restaurants, fast food, small auto-repair/detailing shops, driving ranges, marinas, and independent cinemas.

It also includes properties such as neighbourhood shopping centres, industrial malls, and commercial units in apartment buildings, but these properties should be limited based on their size.

The largest group of properties that house many small businesses in Ottawa are commercial and industrial condominiums. These properties have tenants who most aptly fit all criteria for the Small Business Tax Subclass. While commercial and industrial condominium properties are large, they are primarily occupied by various small businesses.

The definition also includes taverns, motels and inns. These are the smallest hospitality properties and encompass approximately 25 properties in total in Ottawa. To address all facets of small businesses, daycares, recreational sports clubs, bowling alleys, small racetracks, assembly halls and clubs in the Commercial class are included in the definition.

The proposed definition also includes neighbourhood shopping centres, industrial malls, and commercial units in apartment buildings. Since the properties vary in size and some have large big-box stores as tenants, a 25,000 square foot cap will apply to capture the smaller properties that tend to have smaller tenants. Under Section 12 of [O. Reg. 282/98](#), large shopping centres and malls over 25,000 square feet are taxed in the Shopping Centre tax class and have a significantly lower rate than the Commercial class rate. The definition also includes other properties that house small businesses but are capped at 25,000 square feet, such as standard industrial, other industrial, assembly halls, community halls, private and fraternal clubs, mixed retail, and mixed-use properties.

Qualifying Tax Classes

Staff recommend that the Small Business Tax Subclass apply to the following classes under the small business definition:

- Commercial property tax class (CT)
- New Commercial property tax class (XT)
- Industrial property tax class (IT)
- New Industrial property tax class (JT)

Only the portion of the assessment included in one of these tax classes would qualify for the Small Business Tax Subclass. This means that a multi-residential property with a small main floor commercial store would qualify, but only the component that is assessed commercially.

Properties owned and occupied by Crown Corporations that have any property codes included in the small business definition are not eligible for the Small Business Tax Subclass reduction.

For a property to be included in the class, it must meet all the requirements by the second Tuesday in December.

Municipal Overview of the Small Business Discount

Ottawa has approximately 11,000 commercial and industrial properties citywide. According to Statistics Canada ([Table 33-10-0397-01 Canadian Business Counts, with employees, census metropolitan areas and census subdivisions, June 2021](#)), there are approximately 28,855 businesses in Ottawa. Of these, 28,200 are considered small businesses with 1-99 employees, 555 are medium businesses with 100-499 employees, and the remaining 80 are large businesses with over 500 employees. Small businesses operate from homes, small stand-alone commercial properties and large retail, office and commercial buildings. Based on the recommended definitions, staff estimate approximately 5,800 commercial and industrial properties, representing roughly 10,000 businesses, out of the 11,000 commercial and industrial properties citywide would qualify for the new subclass. The Small Business Tax Subclass will be available to about 52% of commercial and industrial properties in the city, leaving 5,200 residual medium and large commercial and industrial properties citywide that would not receive the discount.

Table 1 further shows where the 5,800 Small Business Tax Subclass properties are located within the city and the estimated number of businesses in each area. The distribution of properties is generally consistent with the overall number of commercial and industrial properties in each area. It should be noted that urban and rural properties tend to have more individual tenanted properties with an average of two (2) businesses per property, compared to suburban properties, which average three (3) businesses per property.

Table 1 - Distribution Commercial and Industrial Properties by Area

Area	Properties in Small Business	Residual Properties	Total	% In Small Business	Estimated Number of Small Businesses
Urban	4,357	3,200	7,557	58%	6,690
Suburban	719	1,044	1,763	41%	2,094
Rural	728	1,030	1,758	41%	1,216
Total	5,804	5,274	11,078	52%	10,000

While 52% of all commercial and industrial properties will qualify for the Small Business Tax Subclass, they only make up 15% of the total commercial and industrial assessment citywide, as shown in Table 2 below. Properties that qualify for the Small Business Tax Subclass are typically smaller properties with an average assessment of \$700,000 per property. In contrast, the residual 48% of properties that do not qualify for the discount are medium to large properties such as malls, office buildings, large retail, hotels, or multi-type complexes. The average assessment for residual commercial and industrial properties is \$4,200,000.

Table 2 - Distribution of Commercial and Industrial Assessment Citywide (in Billions)

Type	In Small Business	Residual	Total
Total Commercial & Industrial Assessment	\$4.1	\$22.3	\$26.4
% of Total	15%	85%	

Small Business Tax Subclass Impact in Business Improvement Areas

Business Improvement Areas (BIAs) are an association of commercial property owners and tenants within a defined area who work in partnership with the City to create thriving and safe business areas that attract shoppers, tourists, and new businesses. Ottawa has 19 BIAs representing 24% of the city's commercial and industrial properties (or 2,668 properties). These properties vary in size depending on location. Cumulatively, within all BIAs, 55% of commercial and industrial properties will qualify for the Small Business Tax Subclass, as shown in Table 3 below.

Table 3 - Distribution of Commercial and Industrial properties in BIAs

Type	In Small Business	Residual	Total
BIA Properties	1,477	1,191	2,668
% of Total	55%	45%	

Small Business Tax Subclass Discount Rate

The Small Business Tax Subclass offers a discounted tax rate to the qualifying properties. The Regulation prescribes that municipalities can offer a discount rate of up to 35%. To determine the most appropriate discount for small businesses in Ottawa, staff considered the following:

1. Neutrality within the Broad Commercial and Industrial Class

One of the guiding principles of the Small Business Tax Subclass framework approved by Council was to ensure that the implementation of the Small Business Tax Subclass discount is revenue neutral and that the cost of the discount should not be passed on to residential taxpayers. To maintain the same revenue requirement, municipalities can offset the cost of the small business discount through increased taxes on other properties. The Province provides municipalities with the flexibility to shift the tax burden between classes or keep the tax burden neutral within the class. Council's approach has been traditionally to keep the tax burden within each broad class. Staff have taken this same approach to cover the cost of the Small Business Tax Subclass.

2. Matching Small Business Tax Subclass Discount on Education Rate

Through the Fall 2020 budget, the Province also announced that they would be willing to match each municipality's small business discount on the education rate, upon application. The matched discount will provide additional relief to the properties in the Small Business Tax Subclass at no additional cost to the residual commercial and

industrial properties.

3. Small Business Tax Subclass Parity with the Shopping Class

Most small businesses in Ottawa are in the retail industry. These properties are located in smaller properties that are less than 25,000 square feet and pay the commercial class rate. Others are located in larger retail properties with more than 25,000 square feet in gross leasable space and pay the Shopping Class rate, which is significantly lower than the Commercial class rate. The Commercial class rate is 1.82 times the Residential rate, while the Shopping rate is only 1.47 times the Residential tax rate. Consequently, properties taxed in the Shopping Class have historically benefitted from a significantly lower tax rate than those in the Commercial class. Hence, a small business in a large mall currently already benefits from that lower rate.

One of the primary objectives of the Small Business Tax Subclass discount is to bring parity between small businesses on the property taxes they pay regardless of whether they are operating out of small or large properties. At a 15 % small business discount, small businesses operating out of properties less than 25,000 square feet would achieve parity in total municipal and education taxes paid, compared with small businesses operating out of larger properties, as demonstrated below.

Table 4 - Total Taxes per \$1,000,000 of Assessment

Class	Total Tax Before	\$ Change at 15% Discount	Total Taxes After
Small Business – In a Small Commercial Building	\$ 26,478	\$ (3,972)	\$ 22,506
Small Business – In a Large Mall	\$ 22,303	\$ 325	\$ 22,628

4. Small Business Tax Subclass Consultation with Business Stakeholders

City staff carried out further detailed and meaningful consultations with Ottawa Coalition of Business Improvement Areas (OCOBIA), the Small Business Tax Subclass BIA working group (composed of three BIA executive directors representing the urban, suburban and rural areas), the Ottawa Board of Trade (OBOT), Regroupement des gens d'affaires (RGA) and Building Owners & Managers Association (BOMA). Staff heard a desire to increase the discount level to small businesses and capture as many small businesses as possible while keeping the impact on the residual commercial and

industrial properties to a minimum.

5. Small Business Discount Implications on Residual Properties

As part of the consultations, staff considered various discount levels and their implications on the residual commercial and industrial properties. Table 5 below shows the overall property tax increase (municipal and education) that would apply to the residual commercial properties at each discount level, before taking into account the elimination of the Excess Land Subclass.

Table 5 - Residual Property Increase at various discount levels

Small Business Discount Level	Residual Properties Tax Increase
10%	1.07%
15%	1.62%
20%	2.18%
30%	3.32%

6. Elimination of the Excess Land Tax Subclass

Through the Government of Ontario 2017 Budget, the Province provided municipalities with the flexibility to eliminate the Commercial and Industrial Vacant and Excess Land Subclass discounts. Previously, the Commercial Excess Land Subclass received a 30% discount off the Commercial tax rate, and the Industrial Vacant and Excess land subclasses received a 35% discount off the Industrial tax rate. The Province also eliminated the Vacant and Excess Land discounts on the education rates in 2019. Staff have examined the 430 properties in Ottawa that benefit from the Excess Land discount and recommend that the discount be eliminated going forward. In tandem with the Small Business discount implementation, the elimination of the Excess Land discount would soften the impact on residual properties by reducing the overall impact by approximately 0.2%

7. Conclusion

The Small Business Tax Subclass framework presented by staff in the Spring had proposed a 10% discount for small businesses. Following more in-depth research,

consultation and refinement of the Small Business selection criteria, staff recommend that a small business discount of 15% be offered to 5,800 properties, representing approximately 10,000 small businesses, and that it be implemented over two years at the rate of 7.5% per year, starting in 2022. By phasing in the discount, properties in the Small Business Tax Subclass will see immediate relief while lessening the impact on residual properties. Properties will not see the discount or the residual increase until the final tax bill in 2022, as the interim tax bill is based on 50% of the prior year's taxes.

Staff also recommend phasing out the Excess Land discount on the 430 properties over a two-year period. Providing a small business discount of 15% while eliminating the Excess Land discount in tandem will soften the increase to the residual properties. Implementing a 15% small business discount will also align the total municipal and education taxes for the Small Business Tax Subclass with those of properties in the Shopping Class.

At a discount of 15%, the qualifying small business properties would receive approximately \$9.9 million in tax savings. The savings would be offset by \$1.4 million from the elimination of the Excess Land discount. The remaining \$8.4 million will be borne by the residual commercial and industrial properties, as shown below.

Table 6 - Total Small Business Discount Summary (Municipal Tax Only)

Class	Discount to Small Businesses	Elimination of Excess Land Discount	Cost to Residual Properties
Commercial	\$(9.4) M	\$1.1 M	\$8.3 M
Industrial	\$(0.5) M	\$0.3 M	\$0.2 M
Total	\$(9.9) M	\$1.4 M	\$8.5 M

The impact on residual properties is estimated to be 1.46% (or 0.73% annually for two years). The average residual commercial property assessed at \$4 million and paying \$106,000 annually in municipal and education taxes would see a total increase of \$1,500 in annual tax dollars (or \$750 annually for two years).

An average small business property assessed at \$700,000 would see savings of approximately \$2,780 in municipal and education taxes on their tax bill (or \$1,390 annually for two years).

Once the report is approved, the Deputy City Treasurer, Revenue Services, will apply to the Province to have the municipal small business discount matched on the education rate.

Ensuring Tenants Receive the Small Business Tax Subclass Discount

Many of the qualifying properties house a mixture of tenants and property owners. The City does not issue tax bills directly to small business owners who are tenants. Only property owners receive a tax bill, and the taxes are typically paid to the landlord by the tenant. One of the objectives of the City is to ensure that the discounts provided to qualifying property owners reach the small business tenants. Our consultations with business stakeholders determined that most commercial and industrial landlords have a net lease or a double net lease, which allows all the property operating expenses, including property taxes, to flow directly to the tenant. A discount on the tax bill would therefore flow directly to the tenant. There are fewer cases where landlords may have a gross lease, where the landlord is responsible for all of the property's operating expenses and the tenant pays a flat monthly rent.

The Small Business Tax Subclass Regulation allows municipalities to revoke the tax subclass from a property. If the class is revoked, an increased retroactive tax bill would be issued and would have unintended consequences on the tenant. Typically, when landlords receive a back bill due to taxation (assessment appeals, supplementary assessments, etc.), they attempt to recoup these costs from the tenant. Staff have therefore concluded that the revocation of the discount would adversely impact the tenants rather than the landlord.

To assist in ensuring that tenants benefit from the Small Business tax class discount, and as required by the Regulation, the City will advertise all the properties that qualify for the Small Business Tax Subclass on Ottawa.ca. Staff will also work with the BIAs on a communication campaign to ensure both tenants and property owners are aware of the new subclass and where to go to see if their property qualifies. Staff will complete a targeted mail-out to property owners to provide details on the discount and clearly indicate to them that the discount should be passed on to their tenants, where applicable.

Staff will continue to monitor and review the Small Business Tax Subclass annually through the annual Tax Policy Report.

Inclusion in the Small Business Tax Subclass

Upon approval of the qualifying criteria, staff will send the listing of qualifying properties to MPAC for Small Business classification in the upcoming year-end roll return. Property owners will also receive a Property Assessment Notice (PAN) from MPAC confirming that there has been a change to their tax classification, and they are now assessed in the Small Business Tax Subclass. As part of the regular review of the assessment roll, staff will be required to review any year-end updates that MPAC may have made to properties and determine if any changes in classification are required. Changes will be communicated to MPAC immediately to ensure that they can be adjusted before issuing the final bills.

The Regulation requires that the City post a listing of all the properties included in the Subclass class by January 31 of the applicable taxation year, which staff will do via Ottawa.ca.

Throughout the year, there are multiple changes to the assessment roll. MPAC issues supplementary and omitted assessments; there are assessment-related decisions, and properties may be sold. To ensure the program's stability, properties identified as qualifying for the Small Business Tax Subclass will remain in the class for the full year. Those that do not qualify at the beginning of the year will remain excluded from the class until the following tax year. Annually, staff will conduct an audit, possible site inspections, review the data and confirm the listing with MPAC to ensure that any changes are accurately reflected in the annual roll return.

Requests for Reconsideration and Appeals

Under the *Assessment Act*, property owners can request a review of their assessment or appeal the assessment. The Regulation for the Small Business Tax Subclass contains similar processes.

Property owners can submit a request for reconsideration (RFR) of specific decisions made by the City under the by-law (as prescribed by the Regulation) to the City employee appointed as "Program Administrator". The Program Administrator is responsible for considering RFRs and making determinations. If the property owner does not agree with the determination, they can appeal the determination to the City employee appointed as "Appellate Authority". Similar to filing of an assessment appeal with the Assessment Review Board (ARB), staff are recommending that the property owner be required to pay a filing fee to have the appeal heard by the Appellate Authority. Under section 391 of *the Municipal Act*, municipalities have the ability to

impose fees to recuperate the costs to deliver a program or service in which there is a direct and specific benefit to the service user. This fee is calculated on a cost-recovery basis and reflects the costs related to the appeal process. For 2022, staff recommend that the appeal filing fee be set at \$318, which is in line with the filing fee for the ARB. The fee will be reviewed annually through the budget process to ensure it accurately reflects the appeal costs.

If the RFR or appeal determination results in a change to the property class status, the property will be coded in the Small Business Tax Subclass, MPAC will be notified, and the listing on Ottawa.ca will be updated accordingly.

The Regulation requires that the above referenced positions (the Program Administrator and the Appellate Authority) be appointed by Council. Staff recommend that the Program Manager, Property Assessment and PILTs be designated as the Small Business Tax Subclass Program Administrator. Staff recommend the Deputy City Treasurer, Revenue Services, be designated as the Appellate Authority.

Next Steps

Should Council approve the staff recommendations, Revenue Services will immediately provide a list of qualifying properties to MPAC for a property tax class update ahead of the year-end roll return for 2022. Staff will provide information on Ottawa.ca to advertise the new Small Business Tax Subclass, publish the listing on January 31st and the appeal process. Staff will also prepare a targeted mail-out to qualifying property owners advising them of the discount and the two-year phase-in. The letter will also highlight the importance of ensuring that they pass the discount on to their tenants. Staff will also prepare a targeted mail-out to properties receiving the Excess Land Subclass discount to advise them of the two-year phase-out of the discount. Finally, the recommendations in this report to approve a Small Business Tax Subclass discount and eliminate the Excess Land Subclass discount will also be considered in the development of the 2022 annual Tax Policy Report.

FINANCIAL IMPLICATIONS

Financial implications are outlined in this report. The total discount to small business properties of approximately \$9.9 million will be offset by the elimination of the optional Excess Land Subclass and the remainder by a slight increase to the commercial and industrial broad class properties that do not receive the discount.

LEGAL IMPLICATIONS

There are no legal impediments in approving the recommendations in this report.

Assessment Act O. Reg. 282/98 as amended by O. Reg. 331/21 provides in section 23.0.8(2) that a Small Business Tax Subclass applies for a property class within a single-tier municipality only if the council of the single-tier municipality has passed a by-law that opts to have the subclass apply for that property class.

COMMENTS BY THE WARD COUNCILLOR(S)

This is a citywide report.

CONSULTATION

Staff engaged various business stakeholders ahead of the presentation of the original framework in the spring. Council directed staff to continue to consult with the business community to develop the final recommendations for the Small Business Tax Subclass regime. Stakeholder consultation began as soon as the Province published the Small Business Tax Subclass Regulations. Staff consulted with the Ottawa Coalition of Business Improvement Areas (OCOBIA), the Ottawa Board of Trade (OBOT), Regroupement des gens d'affaires (RGA) and the Building Owners and Managers Association (BOMA). Staff held bi-weekly discussions with OCOBIA and its Small Business Tax Subclass working group. We heard from our business stakeholders that the City needed to provide a meaningful discount to as many small businesses while being mindful of the implications to the residual properties that would not get the discount. Based on the feedback we received from all stakeholders, staff conducted in-depth research and property inspections and developed multiple iterations of the Small Business Tax Subclass regime proposals before arriving at the final recommendations in this report, which generally meet the needs of all stakeholders.

ACCESSIBILITY IMPACTS

Accessibility impacts have been considered when drafting this report and will be factored into the implementation plan. All communications will be issued in accessible formats, and the accessibility office will be consulted as the website is updated in 2022.

The subclass discount provided to small businesses does not change the requirements of businesses to adhere to the [Accessibility for Ontarians with Disabilities Act, 2005](#), ([AODA](#)). This requirement is ongoing for all businesses in Ontario.

ASSET MANAGEMENT IMPLICATIONS

There are no Asset Management Implications

CLIMATE IMPLICATIONS

There are no Climate implications

ECONOMIC IMPLICATIONS

Economic Development Services strongly supports the recommendations of this report. The elimination of the Excess Land subclass and the small increase to residual properties' tax bills is not expected to have a negative impact on local job creation or retention. While the annual tax savings that will accrue to a small business it is unlikely to be a significant factor in job creation. The implementation of the new Small Business Tax Subclass demonstrates the City's recognition of the contribution of small businesses to employment, neighbourhood vibrancy and quality of life. Deliberate City action to support Ottawa's business-friendly brand increases the business community's confidence and support toward further growth and investment.

ENVIRONMENTAL IMPLICATIONS

There are no environmental implications

INDIGENOUS GENDER AND EQUITY IMPLICATIONS

The Gender and Race Equity, Indigenous Relations, Diversity and Inclusion group have been consulted, and there are no implications with this report. The subclass is based on use and size, and there are no property assessment or location criteria that may further restrict the opportunity for the discount. As the subclass is determined using the information available in the assessment, ownership is not a consideration as one of the criteria for the discount. Ownership does not relate to the use of the property as the tenants may be a different group than the owners, and as discussed in the report, commercial tenant information is fluid and not something available on the Assessment roll.

RISK MANAGEMENT IMPLICATIONS

There is a minor risk that a small percentage of landlords may not pass the discounts to their tenants. The City cannot mitigate disputes between the tenants and the landlords, as this is the role of the Landlord and Tenant Board. To mitigate this risk Revenue Services will work closely with the BIA's, OCOBIA, OBOT and RGA on a communication

campaign to ensure that landlords are aware that this discounted tax must be passed on to tenants. In addition, by posting the list of qualifying properties on Ottawa.ca, tenants will be able to identify if the property the rent space in qualifies for the class

RURAL IMPLICATIONS

Rural implications have been considered with the framework of the Small Business Tax Subclass. Staff have consulted with OCOBIA and representatives from rural BIAs, to ensure that rural small businesses are captured in the Small Business Tax Subclass. As noted in the report, there is a proportionate distribution of qualifying properties in the urban, suburban, and rural communities

TECHNOLOGY IMPLICATIONS

IT Services and Web Services were engaged while drafting this report. Both groups will work with Revenue Services to ensure that Ottawa.ca is updated to meet requirements set out in the provincial regulation. The website will be updated with information on the Small Business Tax Subclass, the listing of the qualifying properties and details on the request for reconsideration process.

TERM OF COUNCIL PRIORITIES

This report supports Council priority of Economic Growth and Diversification. By offering a discounted tax rate to small business properties, the City is creating tax parity with small businesses in larger shopping malls that already receive a partially discounted tax rate. The Small Business Tax Subclass will energize the small business sector and keep small businesses thriving across the City.

SUPPORTING DOCUMENTATION

Document 1 – Draft by-law to enact the Small Business Property Class

DISPOSITION

Upon approval of this report, the Chief Financial Officers' office will finalize the required by-laws with Legal Services to implement the Small Business Property Class, and place the by-laws on the agenda of Council for enactment. The Small Business Tax Subclass discounts approved through this report will be enacted through the annual property tax rates by-laws as part of the annual tax policy process and the filing fee as described in this report will be added to the annual Revenue Fees By-law.

Revenue Services communicate with the affected property owners and update Ottawa.ca to advertise the new optional Tax Subclass and the listing of qualifying properties.

The Deputy City Treasurer, Revenue Services apply to the Province of Ontario to request that they adjust the education property tax rate to match the approved discount applied to the Small Business Tax Subclass.