MFOA

MUNICIPAL FINANCE
OFFICERS' ASSOCIATION
OF ONTARIO

June 20, 2005

Honourable Greg Sorbara
Minister
Ministry of Finance
Frost Building South
7th Floor
7 Queen's Park Crescent
Toronto, ON
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Dear Minister Sorbara:

In your budget of 2004, you introduced a number of changes to the property tax system, the tax capping regime and the assessment cycle. Generally, these changes have been well received in the municipal sector. Municipalities will soon receive preliminary assessment data for taxation in 2006. Treasurers will be analyzing changes in their assessment data and developing tax policy options for council's consideration. As you are aware the delivery of municipal taxation in Ontario has been a tumultuous and complicated endeavor since the introduction of the Current Value Assessment system and the ensuing myriad of changes to taxation legislation and regulation. A number of the issues cited below are time sensitive in nature. Delivering decisions on these matters, allowing municipalities sufficient time to fully analyze their options and craft local taxation policy for the current taxation cycle would compliment the improvements already put in place by your government. Accordingly, MFOA is of the view that this is an opportune time to consider further refinements in the property tax and tax capping regimes. I have detailed several suggestions below for your consideration.

1. Treatment of Properties Attaining Full CVA Taxation

The Board of the Association of Municipal Tax Collectors of Ontario (AMTCO) recently endorsed a provision that recommended that once a property in a capped class (multi-residential, commercial, industrial) attained full CVA taxation, it should be removed from the tax capping calculation. At its meeting of April 8, 2005, the Board of Directors of MFOA also endorsed this motion as it had been a long-standing component of our position with respect to tax policy expressed on various occasions to Mr. Marcel Beaubien in his various reviews of the tax system. We continue to be of the view that the goal of the capping regime should be to take properties to full CVA gradually, but once at CVA, a property should pay taxes based on the full CVA for the property and should not be subject to the capping regime in the future. This would reduce the pool of properties in the capping program over time and enhance tax fairness by ensuring that more properties pay taxes based on their full CVA. To provide flexibility to municipalities, and to avoid problems associated with financing the capping protection for a class, we would recommend that municipalities be given the option of removing properties from the capping regime once full CVA is attained.

2. Tax Ratio Flexibility

In the 2004 tax year, the Ministry of Finance introduced one time flexibility on tax ratio movement for municipalities by allowing municipalities the option of increasing tax ratios for capped classes so long as the tax yield from the class did not exceed the yield in the prior year (controlling for assessment growth).

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Several municipalities took advantage of this policy change. As municipalities begin to consider their tax policy options for 2006, which is a reassessment year, they need to know if this policy will be in place for2006. MFOA would like to see municipalities have the option of adjusting ratios to revenue neutral levels as a standard option available to them through the Municipal Act. This would give municipalities greater flexibility in making long-term ratio adjustments for a property class that they do not have at the moment. Currently, many municipalities are reluctant to reduce ratios for the capped classes since they cannot be raised in cases where the class CVA falls relative to other classes. Given the restrictions, a move to lower a business class ratio in one year followed by an assessment devaluation, in the subsequent year, for that class relative to other classes, would effectively double the off-loaded burden to other property classes. In most instances, the doubling effect would be substantially borne by the residential property classes. This tool would also have the potential of removing some of the volatility in assessment and tax shifts by allowing municipalities to better control inter-class tax shifts related to market changes.

3. Time Limits

The Municipal Act sets out time limits for a number of important tax policy decisions. A short list of such decisions could include:

- An upper tier to decide to delegate tax ratio setting authority to its lower tiers;
- An upper tier to determine tax ratios;
- An upper tier to set tax rates; and
- Decisions related to the use of graduated taxes and the use of optional classes.

In almost every year since tax reform began, regulations have been passed to alter key dates set out in statute. Municipalities have been supportive of the time extensions provided through regulation, but have found that the decision to change deadlines is often made quite late. In 2005, for example, O. Reg. 99/05 altered a number of key deadlines from April 30 to June 30. The regulation was filed on March 14, 2005. Given that many municipalities would have to have 6 weeks to bring tax policy items through their council decision making process, this means that municipalities did not know if an extension would be granted until the 11th hour. We would recommend that extensions be made at least 2 months prior to the expiration of a statutory deadline.

4. Other Regulations for 2006

As municipalities consider various options with regard to tax policy in 2006, it would be useful if the Ministry could provide information as to whether any regulatory changes are being considered that would affect tax policy considerations. For example, will you exercise regulatory authority under ss. 311(9) and 312(9) to alter the tax ratios currently in place for the purpose of the levy restrictions on capped classes? Are changes planned to other regulations such as the tax treatment of linear properties or power dams? MFOA would recommend that announcements on these matters be made as soon as possible in advance of the 2006 taxation year so that municipalities can conduct meaningful tax policy analysis in the latter half of 2005.

5. OPTA Funding

The OPTA program is an important tool used by many of our members to calculate tax rates and to track assessment changes to properties in capped classes. It is our feeling that this important tax and tax capping tool must continue to be available to municipalities and funded by the Province. An announcement on the continuation of OPTA into 2006 and beyond would be useful for those municipalities that expect to rely on it next year and beyond. An announcement with regard to future funding would provide confidence to the sector that this needed tool will be available.

6. The Disparity Between Municipal Tax Ratios and Imputed Education Ratios

The government continues to promote equity between residential and non-residential property class ratios for municipal taxation purposes, as evidenced by the ranges of fairness. At the same time disparity between the imputed education ratios within a community and the municipal tax ratios continues to widen. While municipal industrial tax burdens are generally between 2 and 4 times that of similar valued residential properties, the relative tax rate for education taxes on a similar valued industrial property may be 7 to 9 times that of the municipal rate. MFOA recommends that the Province take steps to lower the incidence of property taxation for non-residential properties in Ontario.

The association certainly recognizes the positive steps your government has taken with respect to municipal property tax. That being said, it is widely held that additional amendments are still required. Accordingly, our membership looks forward to your response on these issues.

Yours truly,

Stephen Cairns
Chair