



OCOBIA Small Business Tax Subclass (SBTS) Report

The OCOBIA Small Business Tax Subclass (SBTS) Task Force was formed to engage in a fulsome review of the proposed tax policy change for Ottawa. Through consultation the Task Force has offered feedback and alternative suggestions which could circumvent some of the unintentional negative impacts to Ottawa businesses.

BACKGROUND

Small Business Tax Subclass (SBTS)

The province of Ontario is providing an option for all municipalities to implement a new Small Business Tax Subclass (SBTS) policy for the 2022 budget. With this announcement, the province is also providing the incentive of a provincial tax reduction to be used strictly within this class - the Education tax cut.

Summary of the Ontario Small Business Tax Subclass legislation:

1. Range of Subclass tax rate discount can be up to 35 percent
2. SBTS is to be included in the tax policy setting, not a stand-alone rebate program
3. Upper-tier required to pass by-law for the program
4. Small business subclass within the following tax classes if the upper-tier opts to have that class included:
 - a. Commercial class
 - b. Industrial class
 - c. Optional class that contains property that would otherwise be in the above (i.e., office buildings, etc.)
5. Subclass can apply to a portion of a municipality and subclass can have different requirements across municipalities as well.
6. Program Administrator (i.e., staff member at upper/lower-tier municipality) must determine which properties are to be included in the subclass
 - a. List must be provided to MPAC and made available to the public electronically
7. Base criteria for inclusion in class:
 - a. Property used by owner or a tenant for a small business as defined in by-law
 - b. Property not included in parking lots, vacant land classes
 - c. Property not included in Large Industrial class
 - d. Not vacant land
8. Establishes the *option* to have an application process for determining eligibility for inclusion in subclass
9. Establishes a Request for Reconsideration process to be undertaken by the Program Administrator (not MPAC).

10. Establishes an Appeal process to be undertaken by the Appellate Authority

Ottawa SBTS Consideration

Ottawa is considering this implementation and will present a proposed tax policy at the October FedCo committee meeting. It should be noted that there is only one other Ontario municipality proposing the SBTS policy change for the 2022 budget, Toronto.

Ottawa SBTS Guiding Principles

The City of Ottawa is fully committed to creating the tax subclass but is open to recommendations and to working together with stakeholders and partners. Here are the *guiding principles* for the proposed Ottawa model:

1. Fair and equitable
2. Revenue Neutral
3. Easy to Administer without added burden to City staff
 - a. No additional staff required
 - b. mine data that someone else is collecting (MPAC)
 - c. landlords to administer and pass on to tenants

Fair and Equitable

The tax cuts for the small business subclass will be fair and equitable via the residual tax increases projected onto larger businesses and properties who have seen a lower commercial tax rate historically.

Revenue Neutrality

To achieve revenue neutrality, the City of Ottawa is proposing increasing the tax rates to residual properties within the municipal Commercial tax class. No other tax classes (including residential property) will be impacted.

OCOBIA recognizes that tax policies are reviewed and modified annually with council and that commercial taxes (with or without incentives) are modified somewhat regularly. The SBTS would be a new subclass within the commercial tax class, where there is currently disparity of rates between existing subclasses.

Easy to Administer

The city will be using data provided through MPAC to create the new class, as opposed to a cumbersome and expensive application process. As a result, we can conclude that the tenants of all impacted commercial properties (SBTS cuts or residual increases) are not directly targeted

as MPAC does not have any visibility of the commercial tenant businesses. The landlord will be expected to pass the tax cut (or residual) to the tenant.

CONSULTATION PROCESS

OCOBIA / City of Ottawa Consultation

With the SBTS Consultation, the OCOBIA task force has established **3 goals**:

1. SBTS policy change will provide a meaningful property tax cut to a large and significant population of small businesses/properties within our BIAs
2. SBTS policy change will result in a minimal impact of residuals on large commercial properties within our BIAs
3. SBTS policy change will achieve parity between the subclasses within the Commercial tax class, where disparity is realized.

Task Force Reviews

In the FedCo April 2021 meeting, the City proposed a SBTS for properties capped at 15,000 sq feet. The Task Force requested an aggregate presentation, by BIA, of properties impacted.

Impact on BIA properties using the 15,000 square feet threshold

| | | | | | | | | |
|-------------------------|--------------------------------|-----|------------------------|--------------------------------|-----|-------------------------|--------------------------------|-----|
| Bank St | Total BIA Roll Numbers | 140 | Bells Corners | Total BIA Roll Numbers | 104 | Vanier | Total BIA Roll Numbers | 218 |
| | Total SBTS | 63 | | Total SBTS | 57 | | Total SBTS | 151 |
| | Total Residual | 77 | | Total Residual | 47 | | Total Residual | 67 |
| | Excluded from SBTS due to size | 3 | | Excluded from SBTS due to size | 17 | | Excluded from SBTS due to size | 4 |
| Westboro | Total BIA Roll Numbers | 111 | Carp Road Corr | Total BIA Roll Numbers | 257 | Carp | Total BIA Roll Numbers | 29 |
| | Total SBTS | 77 | | Total SBTS | 103 | | Total SBTS | 20 |
| | Total Residual | 34 | | Total Residual | 154 | | Total Residual | 9 |
| | Excluded from SBTS due to size | 5 | | Excluded from SBTS due to size | 18 | | Excluded from SBTS due to size | 0 |
| Rideau | Total BIA Roll Numbers | 404 | Glebe | Total BIA Roll Numbers | 111 | Sparks | Total BIA Roll Numbers | 15 |
| | Total SBTS | 95 | | Total SBTS | 80 | | Total SBTS | 0 |
| | Total Residual | 309 | | Total Residual | 31 | | Total Residual | 15 |
| | Excluded from SBTS due to size | 5 | | Excluded from SBTS due to size | 3 | | Excluded from SBTS due to size | 1 |
| Somerset Village | Total BIA Roll Numbers | 15 | Wellington West | Total BIA Roll Numbers | 301 | Manotick | Total BIA Roll Numbers | 63 |
| | Total SBTS | 12 | | Total SBTS | 227 | | Total SBTS | 47 |
| | Total Residual | 3 | | Total Residual | 74 | | Total Residual | 16 |
| | Excluded from SBTS due to size | 0 | | Excluded from SBTS due to size | 6 | | Excluded from SBTS due to size | 3 |
| Preston | Total BIA Roll Numbers | 123 | Kanata Central | Total BIA Roll Numbers | 27 | Byward Market | Total BIA Roll Numbers | 271 |
| | Total SBTS | 94 | | Total SBTS | 2 | | Total SBTS | 175 |
| | Total Residual | 29 | | Total Residual | 25 | | Total Residual | 96 |
| | Excluded from SBTS due to size | 0 | | Excluded from SBTS due to size | 2 | | Excluded from SBTS due to size | 4 |
| Chinatown | Total BIA Roll Numbers | 97 | Kanata North | Total BIA Roll Numbers | 110 | Heart of Orleans | Total BIA Roll Numbers | 154 |
| | Total SBTS | 82 | | Total SBTS | 18 | | Total SBTS | 105 |
| | Total Residual | 15 | | Total Residual | 92 | | Total Residual | 49 |
| | Excluded from SBTS due to size | 1 | | Excluded from SBTS due to size | 26 | | Excluded from SBTS due to size | 11 |
| Barrhaven | Total BIA Roll Numbers | 82 | | | | | | |
| | Total SBTS | 18 | | | | | | |
| | Total Residual | 64 | | | | | | |
| | Excluded from SBTS due to size | 5 | | | | | | |

OCOBIA Aggregate Results Using 15,000 Sq. ft cap

Total Properties: 2632

SBTS: 1317, 50% of BIA properties

Residual: 1206, 46% of BIA properties

Excluded: 109, 4% of BIA properties

SBTS rates with 15,000 sq. ft. cap

The city presented the SBTS rate discounts and residual rate using the 15,000 sq ft cap.

Small Business Tax Subclass with a square-foot cap at 15,000

| Small Business Discount Level | Residual % Tax Increase - with Elimination of excess land | Commercial Ratio | Small Business Ratio | Shopping Ratio |
|-------------------------------|---|------------------|----------------------|----------------|
| 10% | 0.74% | 1.86 | 1.67 | 1.49 |
| 15% | 1.20% | 1.87 | 1.59 | 1.50 |
| 20% | 1.66% | 1.88 | 1.50 | 1.51 |
| 30% | 2.61% | 1.91 | 1.33 | 1.53 |

Considerations and feedback on the Ottawa policy:

1. Support small businesses. While this is a small “property” subclass tax, it is understood that small properties are owned and operated by small businesses.
 - a. The majority of tenants in these properties are what would be considered small business
 - b. It cannot be forgotten that small businesses also occupy larger spaces
2. Increase the tax reduction rate to provide meaningful impact and parity between subclasses. Consider incremental rate reduction to 15% over 2 years.
 - a. In discussions with property owners 10% would provide a very small impact for tenants
 - b. Parity is not achieved between the subclasses at 10%, explore a rate that would achieve parity between commercial subclasses
3. Increase the property cap size to 25,000 square feet

- a. At 46% properties in BIAs due to be impacted with residuals, increase the sq. ft cap to see if this can be lowered.
 - b. Include smaller 'plaza' type businesses that are owned by small businesses and have small business tenants in BIAs
4. Consider a deferral to 2023 to further review and minimize impact on residual properties in BIAs
 - a. Other Ontario municipalities are not pursuing a 2022 tax policy change this fall (exception of Toronto who are in public consultations in August)
 - b. Explore MPAC or Stat Can to provide layers and data that can be used in policy or Request for Reconsideration process
5. Review MPAC white paper from SBTS Working Group. MPAC was producing a whitepaper regarding SBTS options - and confirmed it will not be released until mid-September. It's expected to give municipalities some ideas on Policy Drivers for the subclass, Data Elements to Consider, how to establish a Small Business Property Subclass, and ongoing administrative considerations.
 - a. Joseph Muhuni and Krista O'Brien at the City are in the MPAC Municipal working group for the white paper and the items expected to be included in the paper have already been reviewed and addressed in the initial framework or our follow-up consultations.
6. Proactively communicate the disparity within the commercial tax rate to mitigate concerns and negative feedback about tax increases.
7. Utilize the Education tax cut (only available to the SBTS per Ont. Gov) to minimize the impact of the residual rate on larger properties.
 - a. Review the SBTS tax policy rate reduction if the province eliminates the Education tax cut benefit (Consider increasing the rate at that time to maintain parity)
8. Disclose a resulting list of properties within the SBTS segmented by BIA to provide an efficient means for BIAs to share information with the businesses.

Consultation with the City

The OCOBIA Task Force met with the City on several occasions in consultation.

The City considered much of the feedback provided and reviewed the following options with our Task Force:

1. 15% reduction rate at 15,000 square feet cap
2. 20% reduction rate at 15,000 square feet cap
3. 15% reduction rate at 25,000 square feet cap
4. 20% reduction rate at 25,000 square feet cap

Total BIA properties SBTS / Residual at 25,000 square feet cap

The result of the cap increase from 15,000 sq ft to 25,000 sq ft is 39 properties added to the SBTS within BIAs and >240 properties city-wide. It also reduces the residual properties within BIAs by 1%. It is estimated that these new properties (near the 25,000 sq ft threshold) are mini plazas, with multiple small business tenants.

| BIA | Total SBTC | Total Residual | Total Properties |
|------------------------------|--------------|----------------|------------------|
| BIA/ZAC - WELLINGTON WEST | 229 | 72 | 301 |
| BIA/ZAC - BARRHAVEN | 38 | 75 | 113 |
| BIA/ZAC - BELLS CORNERS | 63 | 41 | 104 |
| BIA/ZAC - BYWARD MARKET | 178 | 93 | 271 |
| BIA/ZAC - CARP | 20 | 9 | 29 |
| BIA/ZAC - CARP RD CORRIDOR | 109 | 143 | 252 |
| BIA/ZAC - GLEBE | 80 | 31 | 111 |
| BIA/ZAC - HEART OF ORLEANS | 108 | 44 | 152 |
| BIA/ZAC - KANATA CENTRAL | 2 | 25 | 27 |
| BIA/ZAC - KANATA NORTH | 20 | 90 | 110 |
| BIA/ZAC - MANOTICK | 49 | 14 | 63 |
| BIA/ZAC - RUE BANK ST | 64 | 78 | 142 |
| BIA/ZAC - RUE PRESTON ST | 95 | 29 | 124 |
| BIA/ZAC - RUE RIDEAU ST | 96 | 308 | 404 |
| BIA/ZAC - RUE SPARKS ST | 3 | 21 | 24 |
| BIA/ZAC - SOMERSET CHINATOWN | 82 | 16 | 98 |
| BIA/ZAC - SOMERSET VILLAGE | 11 | 4 | 15 |
| BIA/ZAC - VANIER | 153 | 64 | 217 |
| BIA/ZAC - WESTBORO | 79 | 32 | 111 |
| Total | 1,479 | 1,189 | 2,668 |

55%

45%

Comparison of \$600,000 assessed small business property at 25,000 sq ft cap

| Type | Assessment | Total 2021 Taxes | 15% Small Business Discount@ 15,000- Sq/ft Limit | % Change | 15% Small Business Discount @ 25,000 - Sq/ft Limit | % Change |
|---------------------|-------------|------------------|---|----------|---|----------|
| Small Business | 600,000 | \$ 15,886 | \$ (2,383) | -15% | \$ (2,383) | -15% |
| | | | | | | |
| Commercial Residual | 4,000,000 | \$ 105,910 | \$ 1,266 | 1.20% | \$ 1,541 | 1.46% |
| Commercial Residual | 25,000,000 | \$ 661,942 | \$ 7,911 | 1.20% | \$ 9,634 | 1.46% |
| Commercial Residual | 100,000,000 | \$2,647,768 | \$ 31,643 | 1.20% | \$ 38,537 | 1.46% |

Parity at 15% and 25,000 sq ft cap

Using the same example as above (\$600,000 assessed property), the City calculated the taxes at different rates. With this table, we are able to see the parity between classes at 15% SBTS reduction rate.

| | 2021 Taxes | 30% | 20% | 15% | 10% |
|-------------------------|------------|-----------|-----------|-----------|-----------|
| Small Business Subclass | \$ 15,887 | \$ 11,121 | \$ 12,709 | \$ 13,504 | \$ 14,298 |
| Shopping Class | \$ 13,192 | \$ 13,519 | \$ 13,400 | \$ 13,342 | \$ 13,284 |

CONCLUSION

OCOBIA Review and Final Consultation with City

1. By increasing the property size threshold to 25,000 sq ft, the additional properties included represent a relevant increase to provide the SBTS.
 - a. 95% of the 240 plus properties are multi-tenant buildings (1500 more small businesses).
2. Parity is achieved by leveraging the Provincial Education tax cut at the 15% rate. We feel at this rate with the SBTS, there will be fairness
 - a. The Education tax cut also alleviates the impact on the residual properties' tax increase.
3. The City will consider phasing this in over two years (7.5% in year one and 15% in year two). This will provide gradual benefit to small businesses while reducing the immediate impact on the residual properties.
4. OCOBIA appreciates the increase to a 15% reduction rate (from the 10% initially proposed)
 - a. If the Provincial Education Tax cut is revoked, the city can revisit an additional increase to 20% to maintain parity amongst the classes.
5. In order to ensure that the tax savings are passed on to tenants, the City plans to launch a fulsome communications effort with all stakeholders.
 - a. The City will also present the impacted property listings by BIA to assist BIAs in communicating to their property owners and businesses.

Percentage of businesses receiving SBTS per BIA

| Business Improvement Area | Total # commercial properties in BIA | Included in new Small Business Subclass | Not included in SMBTS ("residual") | | % | |
|---------------------------|--------------------------------------|---|------------------------------------|--|-------|------------------|
| Somerset Chinatown BIA | 98 | 82 | 16 | | 83.7% | Greater than 75% |
| Manotick Village BIA | 63 | 49 | 14 | | 77.8% | |
| Preston BIA | 124 | 95 | 29 | | 76.6% | |
| Wellington West BIA | 301 | 228 | 73 | | 75.7% | |
| Quartier Vanier BIA | 217 | 153 | 64 | | 70.5% | Greater than 50% |
| Westboro Village BIA | 111 | 78 | 33 | | 70.3% | |
| Glebe BIA | 111 | 78 | 33 | | 70.3% | |
| Carp Village BIA | 29 | 20 | 9 | | 69.0% | |
| Heart of Orleans BIA | 152 | 103 | 49 | | 67.8% | |
| Somerset Village BIA | 15 | 10 | 5 | | 66.7% | |
| Byward Market BIA | 271 | 175 | 96 | | 64.6% | |
| Bell's Corner's BIA | 104 | 56 | 48 | | 53.8% | |
| Bank Street BIA | 142 | 62 | 80 | | 43.7% | Greater than 25% |
| Carp Road Corridor BIA | 252 | 102 | 150 | | 40.5% | |
| Barrhaven BIA | 113 | 34 | 79 | | 30.1% | |
| Downtown Rideau BIA | 404 | 95 | 309 | | 23.5% | Less than 25% |
| Kanata North BIA | 110 | 15 | 95 | | 13.6% | |
| Sparks Street BIA | 24 | 3 | 21 | | 12.5% | |
| Kanata Central BIA | 27 | 2 | 25 | | 7.4% | |

City SBTS Proposal to FedCo October 2021

The following is a summary of the Small Business Sax Subclass framework the City will be presenting to Committee and Council in October.

The small business tax subclass proposal will apply to :

- Properties with specific property codes that lend themselves to a small business description or those that house small businesses
- Specific property codes will be capped at 25K sqft
- Commercial and Industrial tax classes

Discount and Residual Impact:

- 15% discount for properties in the small business tax subclass
- A residual properties tax increase of 1.46% to support the discount
- Discount will be phased in over two years at 7.5% annually, and the residual properties tax increase will be 0.73% annually.

Summary and Sample of Small Business Discount Impact

| Class | Avg Assessment | Total Tax with Education | \$ Change | % Change |
|---------------------|----------------|--------------------------|------------|----------|
| Small Business | 600,000 | \$ 15,886 | \$ (2,383) | -15% |
| Commercial Residual | 4,000,000 | \$ 105,910 | \$ 1,541 | 1.46% |

Demonstration of Parity Achieved between Shopping and Small Businesses

| Class | Assessment | Total Taxes with Education | \$ Change | Net Tax |
|----------------|------------|----------------------------|------------|-----------|
| Small Business | 1,000,000 | \$ 26,478 | \$ (3,972) | \$ 22,506 |
| Shopping | 1,000,000 | \$ 21,986 | \$ 310 | \$ 22,296 |

Distribution of Commercial and Industrial Properties in BIA's

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

Distribution of Commercial and Industrial Properties Citywide

| Type | In Small Business | Residual | Total |
|--|-------------------|----------|--------|
| Total Commercial & Industrial Properties | 5,804 | 5,274 | 11,078 |
| % of Total | 52% | 48% | |

Distribution Commercial and Industrial Properties by Area

Properties

| Area | In Small Business | Residual | Total | % of Small Business | Estimated Number of Small Businesses |
|----------|-------------------|--------------|---------------|---------------------|--------------------------------------|
| Urban | 4,357 | 3,200 | 7,557 | 58% | 6,689 |
| Suburban | 719 | 1,044 | 1,763 | 41% | 2,094 |
| Rural | 728 | 1,030 | 1,758 | 41% | 1,216 |
| | 5,804 | 5,274 | 11,078 | | 10,000 |

Samples of BIA Properties that will be Included by increasing the Sq Ft from 15,000 to 25,000



| | |
|-------------------|-------------------------------------|
| Roll Number | 0614-600-090-00900 |
| Address | 1220-1224 Place D'Orleans |
| Property Code | 425 – Neighbourhood Shopping Centre |
| Number of Tenants | 12 units |
| | |



| | |
|-------------------|-------------------------------------|
| Roll Number | 0614-020-601-35700 |
| Address | 2-12 Byward Market |
| Property Code | 430 – Neighbourhood Shopping Centre |
| Number of Tenants | 5 units |



| | |
|-------------------|-------------------------------------|
| Roll Number | 0614-120-691-11400 |
| Address | 3350 Fallowfield Road |
| Property Code | 430 – Neighbourhood Shopping Centre |
| Number of Tenants | 12 units |
| | |