## BUSINESS TAX CONSOLIDATION - 2017 ANNUAL STATUS REPORT

**EXECUTIVE SUMMARY**
Since 2013, The City of Calgary has been implementing a seven-year plan to incrementally consolidate its business tax revenues with the non-residential property tax. Council directed Administration to provide an annual update, through the Priorities and Finance Committee (PFC), on the progress of Business Tax Consolidation (BTC) until the consolidation is complete in 2019. This 2017 update concludes that BTC is proceeding as planned through a cumulative 60 per cent transfer of business tax revenues to the non-residential property tax, representing a cumulative 12.3 per cent increase to the 2017 non-residential property tax rate.

**ADMINISTRATION RECOMMENDATION(S)**
That the Priorities and Finance Committee recommend that Council:
1. receive this report for information; and
2. direct Administration to bring the remaining status update reports and final status update report to the Priorities and Finance Committee in May of each applicable year.

**PREVIOUS COUNCIL DIRECTION / POLICY**
On 2016 June 13 through C2016-0455 *Business Tax Consolidation – 2016 Annual Status Report*, Council received for information the 2016 annual update and directed Administration to bring the 2017 annual report on Business Tax Consolidation to the Priorities and Finance Committee in May 2017.

On 2015 June 15 through PFC2015-0432 *Business Tax Consolidation – 2015 Annual Status Report*, Council received for information the 2015 annual update, approved 2014 and 2015 property tax refunds to eligible non-profit organizations under the Limited Benefit Non-Profit Tax Mitigation Program and directed Administration to bring the 2016 annual report on Business Tax Consolidation to the Priorities and Finance Committee in May 2016.

On 2014 April 26 through PFC2014-0217 *Business Tax Consolidation – 2014 Annual Status Report*, Council received for information the 2014 annual update and directed Administration to (1) bring a report in May 2014 recommending Council approval of tax refunds under the Limited Benefit Tax Mitigation Program; and, (2) for the following year, bring the annual report on Business Tax Consolidation in May 2015.

On 2012 April 09 through PFC2012-35 *Business Tax Consolidation Framework and Associated Plans*, Council approved the consolidation of business tax revenues into the non-residential property tax by adopting recommendation 4(b) of the report. All of the recommendations adopted by Council in consideration of PFC2012-35 are presented below.

"That the Priorities and Finance Committee recommend that Council:

1. Consolidate business tax revenues into the non-residential property tax, based on the following schedule for the incremental transfer of budgeted 2013 business tax revenues, adjusted for physical growth and contingency amounts in future years, to the non-residential property tax:

(a) zero per cent in 2013,
(b) 10 per cent in each of the years 2014 - 2015, and
(c) 20 per cent in each of the years 2016 - 2019,

with the business tax, for business tax revenue purposes, eliminated in 2019.

2. Approve the following supplementary directions and policies, applicable both during and after the consolidation process unless otherwise stated:

   (a) the effect of Council's zero per cent business tax rate increase policy would continue to apply to the business tax amount transferred to the non-residential property tax;
   (b) a machinery and equipment property tax exemption bylaw will continue to be passed annually, applying to all Calgary machinery and equipment property, except for property subject to annexation agreements and Orders in Council;
   (c) for the purposes of continuity in, and certainty to, Business Revitalization Zone financing:
      i. in consultation with Business Revitalization Zone stakeholders, advocate to the provincial government for a suitable financing alternative than the current business assessment and business revitalization zone levy process; and,
      ii. the business assessment and business revitalization zone levy process continue until such time as a suitable business revitalization zone financing alternative is established.
   (d) Council's decision regarding business tax consolidation be communicated, by way of letters from the Mayor to the provincial and federal governments and railway company that are subject to the payment of grants in lieu of the non-residential property tax in Calgary, with the letter including Council's expectation that grants in lieu of property tax be paid at 100 per cent of the property tax rate; and, for the provincial government, that the letter also express Council's intention to advocate for a suitable financing alternative to the business assessment and business revitalization zone levy process.
   (e) for the properties, or portions thereof, occupied by non-profit organizations, and listed in Attachment 5, the effect of a zero per cent transfer of business tax to the non-residential property tax will be continued and applied for the 2014 and 2015 years; this to be implemented by way of a property tax refund, approved by Council through the annual status report referenced in recommendation #4.

3. Direct Administration to undertake the:

   (a) implementation plan in Attachment 2; and,
   (b) communications plan in Attachment 3.

4. Direct Administration to provide the following consolidation reports to Council, through the Priorities and Finance Committee:

   (a) an implementation readiness report in 2012 September;

(b) annual status reports, including any business tax consolidation related budget implications, by no later than April in each of the 2013-2019 years; and,
(c) a final report by no later than 2019 July."

## BACKGROUND

Following Administration's consultation and communication with stakeholders, Council approved PFC2012-35 to incrementally transfer business tax revenues to the non-residential property tax over the period of 2013 to 2019. Administration is to provide annual status reports to Council, including any potential issues or changes to ensure BTC proceeds as planned.

## INVESTIGATION: ALTERNATIVES AND ANALYSIS

For the 2017 tax year, Administration has transferred 20 per cent of business tax revenues to the non-residential property tax, resulting in a 3.8 per cent increase to the 2017 non-residential property tax rate. Since 2013, 60 per cent (cumulative) of business tax revenues has been transferred to the non-residential property tax through BTC, resulting in a cumulative 12.3 per cent increase to the non-residential tax rate.

To deliver the status report requirements and to ensure Council has a complete understanding of the BTC process, the analysis is grouped by the five Council directions under PFC2012-35.

*Council Direction 1: Recommendation to consolidate*

As per the annual transfers approved in PFC2012-35 (table below), the 2017 tax year has a 20 per cent incremental transfer of business tax to non-residential property tax. Before consolidation, the 2017 business tax revenue, including allowance for tribunal losses and estimated net growth, amounted to $132.4 million. For 2017, after the incremental 20 per cent transfer, business tax revenue amounted to $88.3 million.

| BUSINESS TAX TRANSFER TO NON-RESIDENTIAL PROPERTY TAX | | |
|---|---|---|
| **Year** | **Incremental Transfer (%)** | **Cumulative Transfer (%)** |
| ***2013*** | 0 | 0 |
| ***2014*** | 10 | 10 |
| ***2015*** | 10 | 20 |
| ***2016*** | 20 | 40 |
| ***2017*** | 20 | 60 |
| ***2018*** | 20 | 80 |
| ***2019*** | 20 | 100 |
| The business tax will be eliminated in 2019. | | |

As the non-residential property tax is the base for The City's Rivers District Community Revitalization Levy (CRL), there is an annual increase to the CRL revenue from BTC transfers until the CRL expires in 2027; with a corresponding decrease in property tax for City operating budget purposes given that CRL revenues are transferred to the Calgary Municipal Land Corporation (CMLC), the wholly owned subsidiary of The City responsible for the implementation of the Rivers District Community Revitalization Plan. Adjustments are made annually that result in no new funds, maintain compliance with the CRL regulation, and keeps The City's operating budget whole.

*Council Direction 2: Supplementary directions and policies*

*Zero per cent business tax rate increase policy*
Council's zero per cent business tax rate increase policy was continued in 2017 and applied to the 2017 business tax rate. The policy applies both to the business tax rate and the portion of the non-residential property tax rate that is associated with consolidation (i.e. all business tax revenues consolidated into the non-residential property tax).

*Business Improvement Area (BIA) Financing*
BIA tax revenue is currently collected through the business assessment process. Administration will continue collecting BIA levies through this process until a suitable alternative is provided by the Government of Alberta (GoA) under proposed BIA legislation. Progress towards legislative amendments is as follows.

i. In May 2012, the Mayor sent a letter to the Minister of Municipal Affairs to (a) communicate BIA effects from the eventual phase out of the Calgary business tax and (b) advise that The City would advocate for an alternative financing solution for BIAs
ii. At a meeting hosted by Assessment in October 2012, BIAs from across Alberta agreed that an alternate financing solution using the property assessment system would be beneficial. The City proposed legislative amendments within the context of both *Municipal Government Act* (MGA) and City Charter discussions to allow BIA levies to be administered through the non-residential property assessment base.
iii. In 2016, Calgary's BIA organizations expressed concern that BIA financing through non-residential property taxpayers would be too focussed on property owners (e.g. landlords) and would not adequately engage business tenants in the BIA community. A model that allowed for dual membership, with both non-residential property owners and business owners involved in the BIA, was advocated for by the BIAs.
iv. In July 2016, the GoA amended the Municipal Government Act (MGA) to replace all references to Business Revitalization Zones with Business Improvement Areas., including in title of the BIA regulation.
v. In December 2016, the GoA passed MGA amendments with no change to section 381 whereby matters related to the BIA levy would continue to be legislated through the BIA regulation.
vi. Over the summer of 2016, the GoA undertook a stakeholder consultation as part of its BIA Regulation review, through which the concerns of Calgary's BIAs will be considered towards the draft BIA regulation.
vii. In response to the concerns of BIA organizations, Council through NM2016-33 directed Administration on 2016 November 22 to prepare a report to explore alternatives for BIA levy collection and methods for BIA organizations to communicate will all businesses in

their respective constituency. During the engagement for Administration's preparation of the report, the Calgary BIAs expressed their desire to have non-residential property owners form part of the membership and the mechanism for collecting the BIA levy.

*viii.* On 2017 April 10, Bill 8 "An Act to Strengthen the Municipal Government" passed first reading by the Legislative Assembly of Alberta towards enacting amendments to the MGA. BIA related provisions in Bill 8 will make business operators within a BIA liable to pay the BIA tax. While this tax liability upon "the person who operates a business" may not facilitate the assessment and collection of the BIA tax based on non-residential property tax, Bill 8 provisions are subject to debate by members of the legislative assembly upon second reading of the bill, expected to occur at the sitting of the Assembly in early May 2017. Further to second reading of Bill 8 and any BIA amendments there from, Administration will verbally update the Priorities and Finance Committee and Council at the respective meetings at which this report is presented.

*ix.* On 2017 April 24, in response to Council direction in NM2016-33, Council received for information PFC2017-0291 *Alternatives for the Collection of the Business Improvement Area Levy* which detailed operational alternatives available to Administration to facilitate BIA communications with its business constituency, even if the BIA tax is levied to through the non-residential property tax.

x. It is anticipated that the draft BIA regulation will be circulated by the GoA for stakeholder feedback no later than Q4 2017.

*Grants-in-lieu of taxes*
Administration confirms that the provincial and federal governments, as well as Canadian Pacific Railway, paid 2016 grants-in-lieu of both property and business taxes at 100 per cent of the expected amounts in relation to BTC-related tax levy shifts. Administration expects these grants will continue to be paid annually at the same 100 per cent rate; to which Council is to be notified through BTC status reports in coming years.

*<u>Council Direction 3: Plans associated with consolidation</u>*

*Implementation Plan*
Consistent with the implementation plan in Report PFC2012-35 the following actions have been taken since the last annual status report (PFC2015-0432) in May 2015.

- On 2017 January 05, non-residential and business assessment notices were mailed and information on the progress and status of BTC was included in an insert with these notices.
- On 2017 January 23, Council passed the *Business Tax Rate Bylaw 2M2017* with a rate based on a 60 per cent cumulative transfer of business tax revenues to the non-residential property tax.
- On 2017 January 23, Council passed the annual *Business Improvement Area Tax Bylaw 3M2017* and the *Business Improvement Area Tax Rates Bylaw 4M2017*.
- On 2017 February 03, business tax notices with levies set by Bylaw 2M2017 were mailed.
- On 2017 April 10, Council passed the *2017 Property Tax Bylaw 21M2017* with the non-residential property tax rate reflecting a cumulative 12.3 per cent increase.
- The last item in the 2017 cycle is the mailing of property tax notices in May 2017.

- The cycle will repeat for 2018 beginning with the passage of the *2018 Business Tax Bylaw* in Q4 2017.

*Communications Plan*
Consistent with the PFC2012-35 BTC communications plan, the following actions have been taken since the last annual status report (PFC2015-0432).

2016
- From October 03 - November 03, Assessment held its 2017 Advance Consultation Period where non-residential and business owners could inquire about, and understand, the impact of the 2017 BTC transfer.

2017
- An insert informing non-residential property and business owners of the 2017 incremental business tax transfer and its impact on their property and business taxes was included with the non-residential property and business assessment notices sent on January 05 (Attachment 1).
- BTC related questions were, and will continue to be, answered year-round by knowledgeable assessment staff through Assessment's customer inquiry service, including during the annual Customer Review Period (CRP) for the 60 days following the mailing of annual assessment notices in January.
- The BTC website http://calgary.ca/btc was updated with the latest information once Property Tax Bylaw 21M2017 was passed on April 10.
- The online BTC calculator, which helps non-residential property and business taxpayers see the effects of consolidation, was updated on calgary.ca to reflect 2017 business and property tax rates.

*Council Direction 4: Reporting back to Council*

a) Implementation Readiness Report
*Business Tax Consolidation – Implementation Readiness Report* (PFC2012-0499) was received for information on 2012 September 24.

b) Annual Status Report
Council directed Administration to provide annual status reporting through the Priorities and Finance Committee for 2013 to 2019. Annual update reports were received by Council in 2013, 2014, 2015, and 2016 for those respective years. This report is the 2017 update to Council.

c) Final Report
A final report will be submitted through the Priorities and Finance Committee in July 2019.

*Council Direction 5: Tax mitigation for limited benefit non-profit organizations (LBNP)*

The LBNP tax mitigation program approved through report PFC2012-0139 saw eligible non-profit organizations receiving property tax refunds in the 2014 and 2015 taxation years of BTC. The intention of the LBNP program was to provide the LBNPs with tax relief, for a 3-year transitory adjustment period, where the refunds were equal to the annual property tax increase to their business premises associated with the BTC tax transfer. These refunds were approved through PFC2014-0289 and PFC2015-0432, following which the LBNP tax mitigation ended.

**Stakeholder Engagement, Research and Communication**

Administration has continued to keep taxpayers informed of the BTC process through letters and inserts included with non-residential property and business assessment notices. In addition, Assessment maintains a year-round customer inquiry service to answer assessment and BTC related questions. As of the last Annual Status Report (C2016-0455), seven customers have inquired about the mechanics of consolidation and how the initiative will impact them. Assessment staff have responded to these inquiries promptly and provided necessary information to help property and business owners plan and budget for BTC impacts.

**Strategic Alignment**

Continuing with BTC aligns with Council's *Action* Plan 2015-2018 priority to "cut red tape and continue to foster a competitive tax environment to help small business succeed" as well as its performance target to have 80 per cent of business tax revenue consolidated into non-residential property tax by 2018.

**Social, Environmental, Economic (External)**

**Social**
There are no social impacts in addition to those identified in PFC2012-35.

**Environmental**
No environmental impacts have been identified.

**Economic**
Moving from a dual to a single tax environment enhances Calgary's economic competitiveness and attractiveness for business investment into the city.

**Financial Capacity**
**Current and Future Operating Budget:**
BTC is revenue neutral to The City

**Current and Future Capital Budget:**
No implications were identified.

**Risk Assessment**

Historically, the administration of business tax has facilitated data collection for The City because business owners are required to engage with Administration to notify of business moves and closures for tax purposes. While Administration will still collect building occupancy details through its permitting, business licensing, and annual property assessment processes, the elimination of business tax in 2019 will reduce the incentive for business owners to remain engaged on moves and closures. Therefore, the City and its industry partners Calgary Economic Development and the Calgary Chamber of Commerce will lose access to a fulsome snapshot of Calgary's business landscape.

Currently, 58 per cent of the businesses require a City of Calgary Business Licence. The other business categories are either considered a low-risk, or are licensed provincially, federally or by another overseeing body. Calgary Community Standards (CCS) currently receives information on all businesses in the city through the business tax information collected. A risk that has been identified with BTC is that businesses that do not require a licence will no longer have an incentive to engage with the City and provide important business contact and location information. This information is used to help CCS determine if a licence is required and also helps Planning and Development to evaluate whether land use rules are met. To mitigate this risk, CCS has been collaborating with Assessment and Planning and Development to identify solutions for the Compliance Services division of CCS. Upon completion of the analysis, if bylaw amendments are required, CCS will provide Council with recommendations.

**REASON(S) FOR RECOMMENDATION(S):**
The implementation of business tax consolidation is proceeding as planned.

**ATTACHMENT(S)**

1. BTC Insert to 2017 Property and Business Assessment Notices