BUSINESS TAX CONSOLIDATION - 2016 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, on the progress of business tax consolidation (BTC) until the consolidation is complete in 2019. This 2016 update concludes that BTC is proceeding as planned through a cumulative 40 per cent transfer of business tax revenues to the non-residential property tax, representing a cumulative 8.5 per cent increase to the 2016 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 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:
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.

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.

Direct Administration to undertake the:
(a) implementation plan in Attachment 2; and,
(b) communications plan in Attachment 3.

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 2016 tax year, Administration has transferred 20 per cent of business tax revenues to the non-residential property tax, resulting in a 4.0 per cent increase to the 2016 non-residential property tax rate. Since 2013, 40 per cent (cumulative) of business tax revenues has been transferred to the non-residential property tax through BTC, resulting in a cumulative 8.5 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 2016 tax year has a 20 per cent incremental transfer of business tax to non-residential property tax. Before consolidation, the 2016 business tax revenue, including allowance for tribunal losses and estimated net growth, amounted to $175.6 million. For 2016, after the incremental 20 per cent transfer, business tax revenue amounted to $131.7 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 highlighted in last year's BTC update report (PFC2015-0432), an unintended consequence of BTC is the impact on The City's Rivers District Community Revitalization Levy (CRL) instituted in 2007 for a 20 year period. Because non-residential property tax is the basis for the CRL, there is an unanticipated increase to the CRL from the incremental BTC transfers until the CRL expires in 2027 and an unanticipated decrease in property tax for operating budget purposes. 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 2016 and applied to the 2016 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 Revitalization Zone (BRZ) Financing
BRZ tax revenue is currently collected through the business assessment process. Administration will continue collecting BRZ tax revenue via this process until a suitable financing

alternative is provided by the Government of Alberta under the *Municipal Government Act* (MGA) and/or its regulations. Progress towards possible legislative amendments is as follows.

i. In May 2012, the Mayor sent a letter to the Minister of Municipal Affairs to (a) communicate BRZ 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 BRZs.
ii. At a meeting hosted by Assessment in October 2012, BRZs from across the province agreed that an alternate financing solution using the non-residential property assessment system would be beneficial.
iii. Through legislative amendments proposed in the ongoing MGA review and City Charter discussions, legislative change is being proposed to allow The City to use the property assessment system to administer BRZ levies so BRZs can receive funding through the non-residential property assessment base.,

Grants-in-lieu of taxes
Administration confirms that the provincial and federal governments, as well as Canadian Pacific Railway, paid 2015 grants-in-lieu of both property and business taxes at 100 per cent of the expected amounts. 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 2016 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 2016 January 25, Council passed the *Business Tax Rate Bylaw 9M2016* with a rate based on a 40 per cent cumulative transfer of business tax revenues to the non-residential property tax.
- On 2016 January 25, Council passed the annual *Business Revitalization Zone Tax Bylaw 10M2016* and the *Business Revitalization Zone Tax Rates Bylaw 11M2016*.
- On 2016 February 05, business tax notices with levies set by Bylaw 9M2016 were mailed.
- On 2016 April 25, Council passed the *2016 Property Tax Bylaw 20M2016* with the non-residential property tax rate reflecting a cumulative 8.5 per cent increase.
- The last item in the 2016 cycle is the mailing of property tax notices in May 2016.
- The cycle will repeat for 2017 beginning with the passage of the *2017 Business Tax Bylaw* in Q4 2016.

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

2015

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- From October 06 - November 06, Assessment held its 2016 Advance Consultation Period where non-residential and business owners could inquire about, and understand, the impact of the 2016 BTC transfer.

2016

- An insert informing non-residential property and business owners of the 2016 incremental business tax transfer and its impact on their property and business taxes was included with the 2016 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 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 *20M2016* was passed in April.
- The online BTC calculator, which helps non-residential property and business taxpayers see the effects of consolidation, was updated on calgary.ca to reflect 2016 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 reporting through the Priorities and Finance Committee for each year from 2013 to 2019. Annual reports were received by Council on 2013 April 22, 2014 April 26, and 2015 June 15 for those respective years. This report provides the 2016 annual report to Council.

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

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. The intention of the LBNP program was to provide the LBNPs with tax relief, for a transitory period, equal to the property tax increase to their business premises associated with the BTC tax transfer. These refunds were approved through PFC2014-0289 and PFC2015-0432.

As an update on the LBNP refunds approved through last year's update PFC2015-0432, there were corrections made in July 2015 when the refunds were reconciled and issued. These refund adjustments resulted in a tax cancellations totalling $166,978.52, which was $871.07 less than the total approved through PFC2015-0432.

With the 2014 and 2015 tax refunds issued in July 2015 under PFC2015-0432, the LBNP tax mitigation program for BTC formally ceased and there will be no further refunds to cover property tax increases to LBNPs over the remaining BTC time frame. The intention of the program was to provide a 3-year window (2013-2015) for LBNP organizations to budget and adjust to the new BTC tax environment.

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 (PFC2015-0432), nine 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 2015-2018 Action Plan which includes the goal to "Develop an implementation plan for the consolidation of the business tax with the non-residential property tax" under the pillar of "Making Calgary the best place in Canada for a business to start and flourish".

The City of Edmonton, The City of Calgary, and their respective BRZs are of like-mind on legislative proposals, in MGA review and City Charter discussions, to raise BRZ tax through non-residential property assessment, instead of the business assessment process.

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 generally for business investment into the city.

BTC may result in higher total taxes levied on a property that is vacant or partially vacant. The business tax is based on the business occupancy of a space. Thus, a space that is vacant and unused is not subject to the business tax. The non-residential property tax, however, can be levied whether or not a building is vacant or partially vacant

Financial Capacity
Current and Future Operating Budget:
BTC is revenue neutral to The City, with any efficiency savings to Administration, following full consolidation in 2019, to be passed on to non-residential taxpayers.

Current and Future Capital Budget:
No implications were identified.

Risk Assessment
No risks were identified.

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

ATTACHMENT(S)

1. BTC Insert to 2016 Property and Business Assessment Notices