

2014 BUSINESS TAX CONSOLIDATION ANNUAL STATUS REPORT – LIMITED BENEFIT NON-PROFIT ORGANIZATIONS

EXECUTIVE SUMMARY

As outlined in the Report PFC2012-35, 2014 is the first year of the incremental business tax revenue transfer on to the non-residential property tax. This year is also the first year that the property tax mitigation program is available for qualifying limited benefit non-profit organizations. The property tax mitigation program was implemented to assist affected limited benefit non-profit organizations with the transition towards a single tax system and increased property taxes, by refunding the 2014 and 2015 property tax increases associated with consolidation.

ADMINISTRATION RECOMMENDATION(S)

That the Priorities and Finance Committee (PFC) recommend that Council use their taxation powers under section 347 of the *Municipal Government Act* to approve the tax refund of the tax amounts listed in Attachment 1.

RECOMMENDATION OF THE PRIORITIES AND FINANCE COMMITTEE, DATED 2014 MAY 06:

That the Administration Recommendation contained in Report PFC2014-0289 be approved.

PREVIOUS COUNCIL DIRECTION / POLICY

On 2012 July 16, through Report PFC2012-0139, Council approved the implementation of a tax mitigation program that would refund the property tax increase to limited benefit non-profit organizations (as listed in Attachment 3 of Report PFC2012-0139) affected by business tax consolidation for the 2014 and 2015 taxation years.

On 2013 December 16, Council passed the annual *Business Tax Bylaw* (Bylaw 1M2014) which includes the provisions for business tax exemption in section 18.

Council directed Administration through the *Business Tax Consolidation – 2014 Annual Status Report* PFC2014-0217 to bring this report to Council in 2014 May to include the tax refunds in connection with the mitigation program.

BACKGROUND

The 2014 taxation year is the first year of the incremental business tax transfer to non-residential property tax due to business tax consolidation. The 10 per cent transfer of the business tax revenue will result in a 2.5 per cent increase in the non-residential property tax rate. With respect to limited benefit non-profit organizations, this would mean an increase to their property taxes paid either directly to The City or indirectly through the property owner.

On 2012 July 16, Council approved report PFC2012-0139 which proposed a mitigation program for eligible organizations that were exempt from business tax but not exempt from property tax at the location they then occupied. The program provides eligible limited benefit non-profit organizations a property tax refund equal to the property tax increases applied to their 2012 property locations due to the consolidation process. The refund will be remitted to the property owners as the adjustment is applied to their property tax accounts. If the organization leases

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the property or a portion of it, the property owner is to pass on the refund to the organization. The program is in place until the 2016 taxation year allowing a three-year period (2013-2015) for eligible organizations to plan and budget for the transition to the consolidated tax.

Eligibility for the tax mitigation program is contingent upon the following:

- no change to the organization's status as a non-profit,
- no change to the organization's location, and
- if applicable, a letter from the property owner to the limited benefit non-profit organization confirm that they will pass on the benefit of the refund to the organization

Non-profit organizations with both property and business tax exemptions will remain exempt from property tax and will not be affected by business tax consolidation.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

In Report PFC2012-0139, the Assessment Business Unit (Assessment) identified 211 limited benefit non-profit organizations occupying 220 properties listed in Attachment 2 of PFC2012-0139 as potential recipients of tax refunds through the Limited Benefit Non-Profit Organization Tax Mitigation Program.

Applications for the tax mitigation program were mailed to the limited benefit non-profit organizations on 2012 November 30 and 2013 July 26. As of the preparation of this report, Assessment received applications from 127 organizations occupying 156 properties or portions of properties. The number of properties eligible for tax refund was more than expected, as certain organizations applied for a tax refund on additional properties that were not considered in Report PFC2012-0139. After further review from Assessment, these additional properties have been verified and are eligible for property tax mitigation. Of the 127 applicants:

- 80 organizations representing 108 properties are eligible for the refund (Attachment 1),
- 22 organizations are not eligible for the refund as the organization is no longer occupying space in the listed location or the account was cancelled,
- 20 organizations require more information (e.g. letter from the property owner),
- one was from a new organization not on the original list of the 211 identified organizations and not eligible for the mitigation program, and
- four were granted property tax exemption as they also submitted a property tax exemption application form

Since the implementation of business tax consolidation, nine of the affected organizations applied for and were granted property tax exemptions for 12 properties. These properties are no longer affected by business tax consolidation because they are now exempt from paying property taxes. Attachment 2 is an update of the Attachment from Report PFC2012-0139. It provides more details regarding the tax mitigation status of the limited benefit non-profit organizations.

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The application deadline for the mitigation program is 2014 December 31. All eligible organizations that apply before the 2014 December 31 deadline will receive a 2014 and 2015 property tax refund equal to the property tax increase caused by the consolidation for the time that each organization is eligible. The refund will be remitted to the property owners as the adjustment is applied to the property tax accounts for each property/roll number listed in Attachment 1. For this report, Assessment is recommending tax refunds be applied to 108 property tax accounts. If one of the eligible non-profit organizations moves to another location or changes their non-profit status during the 2014 or 2015 taxation year, it loses its eligibility for property tax mitigation.

If the limited benefit non-profit organization leases the property or a portion of it, the property owner is to pass on the refund to the organization. As such, a letter from the property owner stating that they would pass on the benefit of any refund was a requirement of the application process. If the organization does not provide a valid letter, it is not eligible for the property tax refund.

Any applications received after the 2014 December 31 deadline will not be eligible for a tax refund. The 2015 taxation year will be the second and final year eligible limited benefit non-profit organizations will be entitled to a property tax refund. In 2016, the mitigation program will cease and there will be no further refunds to cover property tax increases due to consolidation over the remaining transition time frame.

The limited benefit non-profit organizations that apply for property tax mitigation after the preparation of this report and prior to the deadline will still be eligible for 2014 and 2015 tax refund. Assessment will be recommending the tax refund to Council through the annual status update that will be presented in 2015 April.

Stakeholder Engagement, Research and Communication

Assessment has continued to keep taxpayers informed throughout the consolidation process through letters and inserts included with non-residential property and business assessment notices. In addition, Assessment offers a year-round Customer Inquiry Service to answer assessment and business tax consolidation related questions.

Assessment communicated the tax mitigation program to the 220 limited benefit non-profit organizations listed in Attachment 2 by sending a letter informing the organizations of the potential tax refund and the application process in 2012 November 30. Subsequently, a reminder letter was sent in July of 2013 to organizations that have not yet submitted an application form. The limited benefit non-profit organizations that have applied, but were missing information such as a valid letter from the property owner, were also sent an email on 2014 February 27 requesting the information. Lastly, another reminder letter with an application form was mailed out in 2014 April 10 to the remaining limited benefit non-profit organizations that have not applied for property tax mitigation. Some of these organizations may believe that the amount in refund they would receive in property taxes does not substantiate the time and effort associated with the application process.

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Attachment 3 is an update of information provided in Report 2012-0139, which was a list of potential non-profit organizations exempt only from business tax that may qualify for property tax exemption as well. Assessment staff also contacted these organizations by letter and by phone advising them to submit a property tax exemption application form as they may qualify.

Strategic Alignment

Continuing with the business tax consolidation process aligns with Council's 2012-2014 Fiscal Plan that 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".

Social, Environmental, Economic (External)

Social

No social impacts in addition to those identified in PFC2012-35 have been identified.

Environmental

No environmental impacts have been identified.

Economic

The property owners that hold properties occupied by limited benefit non-profit organizations eligible for tax mitigation will be receiving a tax refund for the amount stated in Attachment 1. The refund is to be remitted to the qualifying organizations in cases where the qualifying organizations and the property owner are not the same.

Financial Capacity

Current and Future Operating Budget:

As the result of the tax mitigation program for the approved limited benefit non-profit organizations, the total property taxes recommended for refund are \$68,092.13. Finance has confirmed that there are sufficient funds to accommodate the refunds.

Current and Future Capital Budget:

No implications were identified.

Risk Assessment

If Council does not approve the tax refund amounts listed in Attachment 1, the eligible limited benefit non-profit organizations will have to pay the full property tax amount for 2014, either through the property owner or directly to The City.

REASON(S) FOR RECOMMENDATION(S):

Without Council's approval, the limited benefit non-profit organizations listed in Attachment 1 that have applied and are eligible for property tax mitigation, will not receive a tax refund.
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ATTACHMENTS

1. List of Properties Eligible for Property Tax Mitigation and the Recommended Refund Amounts
2. Tax Mitigation Application Status of Limited Benefit Non-Profit Organization
3. Update of Report PFC2012-0139 Attachment 3 – Organizations That Would Likely Qualify for Property Tax Exemption