ANALYSIS OF THE CHAMBER OF COMMERCE PROPERTY TAX DEFERMENT PROPOSAL

BACKGROUND

The Calgary Chamber of Commerce (the Chamber) has identified that the current state of the economy is creating financial hardship for some members of the local business community and that the creation of a property tax deferral program for non-residential or business tax-payers, analogous to the residential property tax assistance program, could potentially provide targeted relief to those businesses facing financial hardship.

The City of Calgary offers several subsidy programs and services that are accessed through the "Fair Entry" program. This streamlined intake process allows one application to be used to assess income qualification for five City subsidy programs and services, one of which is a property tax assistance program to low income homeowners. Qualifying homeowners receive a credit on the year-over-year increase in their property tax using income criteria based on the Statistics Canada Low Income Cut-Off (LICO).

Council has expressed a desire to respond to the current economic downturn. Operating savings and efficiencies within The City of Calgary have resulted in a 2015 operating surplus, estimated at $30 million which has supported the creation of a Community Economic Resiliency Fund within the Budget Savings Account. This situation highlights the importance of The City's Economic Resilience Program to support citizens and businesses through the downturn, while preparing for recovery. This report focuses primarily on identifying potential property or business tax relief for small business, as proposed by the Chamber.

The economic downturn has been difficult for many Calgary businesses. The Chamber has been in discussions with many of its members who have seen revenues and cash flows significantly impaired in this challenging economic environment. The Chamber has proposed working with The City on a non-residential property tax deferral program that is analogous to programs currently offered to residential taxpayers.

There are currently two programs available to residential taxpayers seeking financial assistance. The Alberta Seniors' Seniors Property Tax Deferral Program is offered and administered by the Province and is eligible to all senior homeowners. Seniors can defer all, or a portion of, their property taxes with a low-interest Government of Alberta loan which is repaid with interest when the home is sold.

The City of Calgary Property Tax Assistance Program is offered to low-income homeowners. Qualifying homeowners receive a credit on the year-over-year increase in their property tax using income criteria based on LICO.

THE CHAMBER PROPOSAL

The Chamber outlined a proposal for a program of targeted property tax relief in a memo (Appendix) to the Administrative Leadership Team (ALT) on 2015 November 16 and subsequently met with members of ALT to discuss the proposal on 2015 November 17. ALT agreed to continue discussions on this topic with the Chamber.

The Chamber proposal suggested a program of targeted relief based on the need for eligibility metrics that would assess financial hardship and help those businesses "who are facing situations where the continuity of business operations, the continuity of employment, and the welfare of the community as a whole are in jeopardy." The proposed program would also need to be "accessible and administratively simple, both from The City's perspective, and that of potential applicants" and "provide adequate relief." The Chamber proposal also suggested a program of property tax deferment in which the tax liability would be deferred to a future period in which the participating business would have capacity to assume the outstanding tax liability. The Chamber did not propose an outright waiver of full or partial tax liability.

On 2015 December 16, members of Administration met with representatives from the Chamber to further discuss the Chamber's proposal and consider alternative relief for businesses in financial hardship. The Chamber's proposal was discussed at length and many good ideas were shared. All parties came to a mutual understanding that the Chamber's proposal, as it currently stands, would be a challenge to implement effectively and be potentially burdensome to those whom it is trying to assist. The key challenges identified were:

- Establishing criteria for financial hardship;
- Determining eligibility metrics, including:
    - Calculation/definition of income (e.g., treatment of depreciation, dividends, etc.)
    - Balance sheet position (e.g., treatment of debt, cash, inventory)
    - Size/definition of target business (i.e., what constitutes a "small" business?)
- Targeting relief to the business operator and not the property owner;
- Securing The City's position in the event of default.

Establishing criteria for financial hardship presents a significant challenge to the successful implementation of this proposal because the definition of "hardship" is entirely subjective and because the performance of a business is influenced by a wide variety of factors. For example, while a business may experience a significant decline in revenues or earnings and be experiencing a form of "hardship", it might also possess significant cash balances, investments or inventory that could support its continued operation. The City's existing residential property tax assistance program to help low-income homeowners uses income criteria based on LICO. No such comparable measure of profitability or "success" (as defined by earnings) exists for businesses.

Determining eligibility metrics also introduces significant challenges due to very complex rules governing financial reporting. For example, complexities arise in establishing a clear definition of income or earnings because of the intricacies presented by Generally Accepted Accounting Principles (GAAP) and the recognition of revenues and expenses. Concepts such as write-offs, dividends and tax pools all add levels of complexity to the definition of income which would require significant Administration resources to review, interpret and normalize in the execution of this proposed relief program. Furthermore, impaired financial performance can be the result of many factors including the general economic environment, mismanagement or creative accounting.

Targeting relief to the business operator can also be potentially challenging since many businesses are operated from rented premises. Additional measures would be required to ensure that relief targeted at non-residential property tax accounts would ultimately accrue to the tenant business and not the landlord. Currently, for non-profit property tax exemptions, The City requires letters from landlords indicating that any benefit arising from the exemption be passed on to the exempt organization. A similar method would likely be required for the

Chamber's proposal as currently written. An additional challenge with this is that landlords could potentially be reluctant to defer taxes for a tenant that, by virtue of its qualification for the deferral, has a higher likelihood of ceasing operations.

Securing The City's position against taxpayer default also presents some challenges. To reduce The City's risk exposure, it would be preferable to defer taxes on non-residential property owners' accounts rather than on business owners' accounts. With non-residential property owners, the tax liability is fully secured up to the value of the property and would be recovered from the property owner, which is not the case with the business owner. The City's security is the ability to sell a property in order to recover the applicable taxes.

Upon identifying these and other challenges associated with the Chamber proposal, a number of other ideas were briefly discussed, none of which produced any substantive results. The meeting ended with the Chamber indicating that they would pursue additional avenues for relief with other orders of government and Administration offering to support this endeavour where possible.

ANOTHER PROPOSAL CONSIDERED

Administration has subsequently developed and analyzed several additional options aimed at satisfying the spirit and intent of the Chamber's original proposal. Two options were deemed to be unsuitable to provide a satisfactory alternative. A third option considered is outlined below.

One-time rebate of a portion of business tax payable based on maximum assessment value

This option assigns a partial rebate of business tax to business tax account holders based on their maximum assessment value. Maximum assessment value is the net annual rental value of the space used in connection with a business. Under this option, maximum assessment value is used as a proxy for the "size" of a business. The City has approximately 27,000 business tax accounts of varying sizes. Calgary Economic Development has informed Administration that approximately 95 per cent of businesses in Calgary employ 50 or fewer individuals. For the purposes of this report, Administration has aligned the scenario presented below with the CED's observation to establish a proxy threshold for what could potentially constitute a "small" business, by identifying a maximum assessment (or net annual rental value) of $400,000 which captures approximately 95 per cent of The City's business tax accounts (highlighted in yellow in the table below). At this level, this option would cost The City $7 million in foregone tax.

This option is similar to the proposal outlined in NM2016-04 with the exception of scale. Where this option identifies a business tax rebate of 10% with a total cost of approximately $ 7 million in one year, NM2016-04 proposed a total rebate of approximately 8 times as much and an annual cost of approximately $30 million per year over two years, for a total of $60 million. Under this option, the mean average rebate would be approximately $270 for one year, while the mean average rebate under NM2016-04 would be approximately $1,200 per year, or approximately $2,400 over two years.

The following table illustrates the financial impact to The City and the potential benefit to the "average" business tax account holder. Column F indicates the business tax revenue foregone by The City, depending upon which maximum assessment value is chosen and the level of rebate provided. Column G attempts to quantify (using the median average) the total financial benefit that would accrue to the "average" business tax account holder, while Column H does the same thing using a simple arithmetic mean. This option has the advantage of being easily scalable – calculating the estimated impacts of higher rebate percentage scenarios is simply a multiple of the base 10 per cent scenario (e.g., a 30 per cent rebate would result in a cost or average rebate of three times the values in the 10 per cent scenario).

Rebate scenario at 10%

Column A	Column B	Column C	Column D	Column E	Column F	Column G	Column H
Maximum Assessment ($)	Number of Business Tax Accounts	Percent of Total Business Tax Accounts	Total Aggregate Assessment ($ millions)	Total Aggregate Tax Billing ($ millions)	Total Program Cost ($ millions)	Median Rebate per Account ($)	Mean Rebate per Account ($)
40,000	13,528	50%	$279.0	$11.9	$1.2	$88	$88
93,000	20,217	75%	$689.7	$29.5	$2.9	$122	$146
225,000	24,242	90%	$1,262.9	$53.9	$5.4	$148	$222
400,000	25,507	95%	$1,632.6	$69.7	$7.0	$157	$273
All	26,824	100%	$3,339.8	$142.7	$14.3	$168	$532

Administration has identified several potential benefits to this option, including:

- The rebate will apply to all small business tax payers up to the identified cut-off (e.g. maximum assessment);
- All business tax payers up to the identified cut-off will receive the rebate;
- The rebate can be implemented with relatively little additional administrative cost to The City and no cost to the business tax payer;
- The rebate program retains the neutrality of the current business tax system and delivers a rebate to all business tax payers up to the identified cut-off;
- Specifically targets small business.

Potential downsides of this proposal include:

- Without a continued rebate in 2017 (or 2018 for NM2016-04) overall business tax levels will increase by a larger than normal amount;
- Does not specifically target businesses affected by the downturn;
- Rebates may not be material to smaller businesses;
- Difficult to measure the benefit provided by these rebates;

- Potential legal implications may need to be addressed.

In developing this option, Administration did consider an application process as part of the intake. However, this requirement was not pursued in order to facilitate administrative simplicity. In addition, it is required that this option, if approved, be limited to a "point in time" intake. Business tax account holders as of a specific date would be eligible for the rebate. The rebate would not be open to new business tax accounts opened after the date of initial intake. If approved, the rebate would be applied to affected business tax accounts prior to 2016 March 31 to allow the rebate to be applied to 2016 Business Tax bills.

This report is not recommending a specific dollar amount of rebates to be given. It identifies a potential option for Council's consideration. If this, or any other, option is pursued, Council will need to provide additional direction to Administration on implementing a business tax rebate program including the funding source, the total funding available, criteria for identifying the business tax accounts to receive a rebate, and criteria for distributing the rebate to individual accounts.

This option is similar to the proposal outlined in NM2016-04 with the exception of scale. Where this option identifies a business tax rebate of 10% with a total cost of approximately $ 7 million in one year, NM2016-04 proposed a total rebate of approximately 8 times as much and an annual cost of approximately $30 million per year over two years, for a total of $60 million. Under this option, the mean average rebate would be approximately $270 for one year, while the mean average rebate under NM2016-04 would be approximately $1,200 per year, or approximately $2,400 over two years.

There is some uncertainty regarding the interpretation and application of specific sections of the *Municipal Government Act* (Alberta) to the implementation of the option presented within this attachment. Additional work may be required by Administration to fully assess The City's potential risk prior to Council adopting this proposed option or a derivation of this proposed option.

Calgary Chamber

600, 237 8th Avenue SE
Calgary, AB T2G 5C3
T 403 750 0400
F 403 266 3413
W CalgaryChamber.com
CalgaryChamber

Chamber Policy Brief

To: The City of Calgary (Administrative Leadership Team)

From: Justin Smith, Director of Policy, Research & Government Relations

Date: November 16, 2015

Re: Proposed Non-Residential Property Tax Deferment Program

Purpose

The purpose of this document is to present the Calgary Chamber's initial thoughts regarding the potential creation of a non-residential property tax deferment program, administered by The City of Calgary, to provide temporary relief for businesses facing financial hardship.

Recommendation

Receive for information, with the aim of considering the feasibility of such a program in the upcoming fiscal year.

Commentary

The City of Calgary currently administers what is known as the "Fair Entry Subsidy Program," a program for low-income individuals and families in Calgary that provides financial assistance for, among other things, public transit, recreation, senior services home maintenance, and property tax assistance. To qualify for assistance via this program, an applicant must a) live in Calgary, and b) have a household income less than the StatsCan Low-Income Cut Off rates. The property tax assistance stream of this program targets relief to low-income homeowners who face an increase in their property taxes, own and live in their home for a year or more, and own no other property.

The Calgary Chamber would like to work with the Administrative Leadership Team to explore the possibility of creating an analogous program for non-residential property taxpayers (i.e. businesses) that face financial hardship.

The economic downturn has hit many Calgary businesses especially hard, and cash flow and revenue are significantly impaired. We have met with companies that have seen their revenue drop to as low as 20 per cent of the previous year's levels. These circumstances can

Calgary Chamber

600, 237 8th Avenue SE
Calgary, AB T2G 5C3
T 403 750 0400
F 403 266 3413
W CalgaryChamber.com
@ CalgaryChamber

make it exceedingly difficult for some businesses to meet their property tax obligations, and we anticipate that this situation will likely continue well into 2016 and potentially longer.

Specific eligibility metrics would need to be established in order to assess financial hardship, but generally, this new program would aim to provide targeted relief to those businesses whose net income and cash flow have dropped considerably, and who are facing situations where the continuity of businesses operations, the continuity of employment, and the welfare of the community as a whole are in jeopardy.

To properly assess financial hardship, The City would need to review documentation that supports such a finding, which could include:

- An income statement
- A corporate balance sheet and details of assets and liabilities

Should such a relief program prove feasible, it must be accessible and administratively simple, both from The City's perspective, and that of potential applicants. The program would also need to provide adequate relief, and therefore we would recommend that the period of deferral last no less than 12 months.

Further refinement of our proposal is of course needed, in particular a discussion of how The City could seek recourse through a charge on property title, as well as managing the nuances associated with businesses that own their property versus those that lease. For these reasons, we propose the following questions to foster an open discussion on this topic.

Questions for Discussion

1. Would The City have the capacity and technical capability to develop such a program?

2. Should such a program target relief via non-residential taxpayers or business property taxpayers (while the business property tax still exists)?

3. Are there mechanisms in place to ensure that the relief appropriately targets the business operator (as opposed to the property owner)?

4. What type of security/collateral would The City need to carry this risk on its balance sheet?