Business Tax Consolidation- 2018 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 2018 update concludes that BTC is proceeding as planned through a cumulative 80 per cent transfer of business tax revenues to the non-residential property tax since 2013, representing a cumulative 16 per cent increase to the 2018 non-residential property tax rate.

ADMINISTRATION RECOMMENDATION:

That the Priorities and Finance Committee recommend that Council:

1. Receive this report for information; and
2. Direct Administration to bring:
   (a) A 2019 status update report to the Priorities and Finance Committee in 2019 May; and
   (b) A final report on Business Tax Consolidation (BTC) to the Priorities and Finance Committee in 2019 July.

PREVIOUS COUNCIL DIRECTION / POLICY

On 2017 May 29 through PFC2017-0308 *Business Tax Consolidation – 2017 Annual Status Report*, Council received for information the 2017 annual update and directed Administration to bring the 2018 annual report on Business Tax Consolidation to the Priorities and Finance Committee in May 2018.

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.

Approval(s): **Sawyer, Eric** concurs with this report. Author: **Mathai, Abe**

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"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 2018 tax year, Administration has transferred 20 per cent of business tax revenues to the non-residential property tax, resulting in a 3.6 per cent increase to the 2018 non-residential property tax rate. Since 2013, 80 per cent (cumulative) of business tax revenues has been transferred to the non-residential property tax through BTC, resulting in a cumulative 16 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 2018 tax year has a 20 per cent incremental transfer of business tax to non-residential property tax. Before consolidation, the 2018 business tax revenue, including allowance for tribunal losses and estimated net growth, amounted to $88.7 million. For 2018, after the incremental 20 per cent transfer, business tax revenue amounted to $44.4 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.		

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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. 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 2018 and applied to the 2018 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 has been underway since 2012 and reported in previous BTC Annual Status Reports to Council. Since the last year's report PFC2017-0308, progress has been as follows.

i. 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.

ii. On 2017 June 17, the GoA passed the *Act to Strengthen Municipal Government*, SA 2017, c.13 (formerly Bill 8). This Act amends the BIA provisions in the MGA and will require corresponding amendments to the *BIA Regulation*. However, these amendments have not yet been proclaimed and, therefore, are not yet in force.

iii. The GoA has expressed its intention to amend the *BIA Regulation* and to provide a draft of the proposed Regulation for public feedback. Administration will verbally update the Priorities and Finance Committee and Council at the respective meetings at which this report is presented.

iv. On 2017 July 05, through CPS2017-0530, Council approved the deferral of the BIA's Annual Report to 2018 Quarter 3. The deferral was requested in part due to anticipation that upcoming amendments may impact the legislative framework that governs the relationship between the BIAs and The City and may necessitate changes to their collective Business Plan and allow for considerations of the most current BIA legislation to be incorporated.

v. As of March 2018, at the time of writing this report, the amendments to the BIA provisions in the MGA contained in *An Act To Strengthen Municipal Government* have not been proclaimed in force. The unproclaimed section allows "Council to <u>impose a tax on property or businesses, but not both,</u> within the business improvement area" *vi.* Capital expenditures would be required to maintain current business tax software past 2019; which the Information Technology business unit estimated in 2012, when BTC was approved, to be in the range of $2.5 million. With BTC approved and BTC implementation underway, Administration has not included business assessment processes within new technology system development. In accordance with the BIA legislative progress since 2012, Administration will recommend to Council, after BTC is complete in 2019 and the requisite BIA legislation is passed, that The City administer BIA levies through a tax on non-residential properties.

Grants-in-lieu of taxes

Administration confirms that the provincial and federal governments, as well as Canadian Pacific Railway, paid 2017 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 in 2018; to which Council is to be notified through the BTC status report in 2019.

<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 (PFC2017-0308) in May 2017.

- On 2018 January 05, the 2018 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 2018 January 22, Council passed the *Business Tax Rate Bylaw 7M2018* with a rate based on a 80 per cent cumulative transfer of business tax revenues to the non-residential property tax.
- On 2018 January 22, Council passed the annual *Business Improvement Areas Tax Bylaw 5M2018* and the *Business Improvement Areas Tax Rates Bylaw 6M2018*.
- On 2018 February 09, business tax notices with levies set by Bylaw 7M2018 were mailed.
- On 2018 April 5, Council passed the *2018 Property Tax Bylaw 17M2018* with the non-residential property tax rate reflecting a cumulative 16 per cent increase.
- The last item in the 2018 cycle is the mailing of property tax notices in May 2018.
- 2018 is the last year this same cycle of bylaws will occur. From the 2019 tax year forward, The City will no longer pass a business tax bylaw or a business tax rate bylaw. However, the cycle of annual BIA enabling bylaws and property tax related bylaws will continue.

Communications Plan

Consistent with the PFC2012-35 BTC communications plan, the following actions have been taken since the last annual status report (PFC2017-0308).

2017

- From October 03 - November 03, Assessment held its 2018 Advance Consultation Period where non-residential and business owners could inquire about, and understand, the impact of the 2018 BTC transfer.

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- An insert informing non-residential property and business owners of the 2018 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 67 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 17M2018 was passed on April 05
- The online BTC calculator, which helps non-residential property and business taxpayers see the effects of consolidation, was updated on calgary.ca to reflect 2018 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, 2016 and 2017. This report is the 2018 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 inserts included with non-residential property and business assessment notices (Attachment 1). In addition, Assessment maintains a year-round customer inquiry service to answer assessment and BTC related questions. As of the last Annual Status Report PFC2017-0308, two customers have inquired about the mechanics of consolidation and how the initiative will impact them.

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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 impacts have been identified.

Risk Assessment

Last year's status report PFC2017-0308 identified a potential risk to The City's data regarding businesses operating in Calgary. Further to PFC2017-0308, Administration has identified a solution using the current process administered by Assessment to collect tenant lists from building owners for non-residential property taxation purposes, coupled with, the focusing of Business Licence resources (e.g. inspectors) to obtain information about business operators located on properties where owners did not voluntarily engage in Assessment's tenant list process. This solution will be implemented for 2019 forward. Administration will monitor the impacts on existing resources and may consider increasing inspector resources as required.

This solution will effectively apply Administration processes already in place to achieve a relatively complete, and statistically relevant, annual snapshot of Calgary's business landscape, even after business tax related processes cease in 2019.

REASON(S) FOR RECOMMENDATION(S):

The implementation of business tax consolidation is proceeding as planned.

ATTACHMENT(S)

1. BTC Insert to 2018 Property and Business Assessment Notices