

BUSINESS TAX CONSOLIDATION – 2014 ANNUAL STATUS REPORT

EXECUTIVE SUMMARY

This report fulfills Council's direction arising from Report PFC2012-35 to provide an annual status update report to Council through the Priorities and Finance Committee (PFC) in April of each year of the consolidation period (2013-2019) with respect to the business tax consolidation process. This report describes work undertaken since the last status update *Business Tax Consolidation – 2013 Annual Status Report* (PFC2013-0099).

As outlined in the Report PFC 2012-35, 2014 is the first year of the incremental business tax revenue to the non-residential property tax. This year is also the first year that the property tax mitigation program is available for the interested limited benefit non-profit organizations that have been approved.

ADMINISTRATION RECOMMENDATION(S)

That the Priorities and Finance Committee recommend that Council:

1. Direct Administration to bring a report recommending tax refunds in connection with the Limited Benefit Non-Profit Tax Mitigation Program to the Priorities and Finance Committee in 2014 May.
2. Direct Administration to bring *The Business Tax Consolidation – 2015 Annual Status Report* to the Priorities and Finance Committee in 2015 May

PREVIOUS COUNCIL DIRECTION / POLICY

On 2014 January 13, Council approved the 2014 Business Tax Rate Bylaw providing for the first incremental transfer of business tax revenues to the non-residential property tax.

Council directed the preparation of this report (PFC2014 – 0217) by adopting recommendation 4(b) of Report PFC2012-35 *Business Tax Consolidation and Associated Plans* on 2012 April 09. 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.

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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 to be used 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."
5. Direct Administration to review mitigation options for the non-profit organizations listed in Attachment 5, and to return with a report to the Priorities and Finance Committee no later than 2012 June."

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Council approved the previous annual status report, PFC2013-0099 *Business Tax Consolidation – 2013 Annual Status Report* on 2013 April 22.

BACKGROUND

After extensive consultation and communication with stakeholder groups and individual taxpayers by Administration, Council decided to proceed with plans to consolidate business tax revenues with the non-residential property tax. As directed by Council, Administration is to provide an annual status report through the Priorities and Finance Committee every April from 2013-2019. The status report was to include the identification of potential issues or changes to ensure consolidation proceeds as planned.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

Introduction

As per Report PFC2012-35, annual status update reports to be provided to Council were to include the following:

- necessary actions undertaken to ensure consolidation continues as planned;
- a recommendation that property, or portions thereof, occupied by limited benefit non-profit organizations identified as exempt from business tax (as listed in Attachment 5 of Report PFC2012-35) are to receive a property tax refund on the consolidated tax amount for the property or portions thereof occupied by the indicated non-profit organizations (2014 and 2015 only); and,
- an update on advocacy efforts to the Government of Alberta for an alternative financing solution for business revitalization zones.

To deliver on the status report requirements and ensure that Council has a complete understanding of the consolidation process, this reports features actions undertaken to implement each of the five directions of Council from PFC2012-35.

Council Direction 1: Recommendation to consolidate

The 2014 taxation year is the first year of the incremental business tax transfer to non-residential property tax. For 2014, the net business tax revenue, before consolidation, including allowance for tribunal losses and estimated net growth, amounted to \$211.6 million. After the 10 per cent transfer, the net 2014 business tax revenue amounted to \$190.5 million, resulting in an estimated 2.5 per cent increase in the non-residential property tax rate. More detail on the mechanics of the transfer is presented below under Council Direction 3.

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BUSINESS TAX TRANSFER TO NON-RESIDENTIAL PROPERTY TAX			
Year	Incremental Transfer (%)	Cumulative Transfer (%)	Increase to Non-residential Property Tax Rate (%)
2012	No Change - Business Tax Consolidation starts in 2013		
2013	0	0	0
2014	10	10	2.5*
2015	10	20	-
2016	20	40	-
2017	20	60	-
2018	20	80	-
2019	20	100	-
The business tax for business tax revenue purposes will be eliminated in 2019.			

*Estimated increase as property tax rate has not been finalized

Council Direction 2: Supplementary directions and policies

a) Zero per cent business tax rate increase policy

The zero per cent business tax rate increase policy was continued in 2014 and applied to the 2014 business tax rate. This year the policy will apply 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).

b) Machinery and Equipment Property Tax Exemption Bylaw

Administration has prepared a *Machinery and Equipment Property Tax Exemption Bylaw* for 2014. It will be submitted to Council as part of the package of bylaws associated with the *Property Tax Bylaw* which will be presented in April.

c) 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 in the *Municipal Government Act* (MGA) and/or its regulations.

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In May of 2012, the Mayor sent a letter to the Minister of Municipal Affairs that communicated the effects of consolidation and let the Minister know that The City would be advocating for an alternative financing solution for BRZs.

At a meeting hosted by Assessment in October of 2012, BRZs from across the province agreed that raising revenue through the non-residential property assessment system would be beneficial.

Along with The City of Edmonton, The City of Calgary's Assessment business has proposed legislative changes to allow non-residential property assessments to be the basis for business revitalization zone taxes as part of both City Charter talks and the review of the MGA by the Government of Alberta.

d) Grants in lieu of taxes

As of last annual status report, PFC 2013-0099, there has been no change. Administration still expects the provincial and federal government as well as Canadian Pacific Railway to pay grants at a 100 per cent of the tax amount that would otherwise be levied. Should grants not be paid as expected, Council will be notified through the Annual Status Update report in subsequent years.

e) Limited Benefit Non-Profit Organizations

Council approved tax refunds for non-profit organizations affected by consolidation through the Limited Benefit Non-Profit (LBNP) Tax Mitigation Program in Report PFC2012-0139. The recommendations for tax refunds that were approved as part of the LBNP Tax Mitigation Program were meant to be presented to Council as part of this report. However, the recommendation could not be brought forward because the tax rate was not yet finalized by the time of writing this report. Administration will be able to bring a report on the progress of the LBNP Tax Mitigation Program and recommendations for tax refunds to the Priorities and Finance Committee in May, after the tax rate has been finalized.

Council Direction 3: Plans associated with consolidation

a) Implementation Plan

Consistent with the implementation plan in Report PFC2012-35 the following actions have been taken since the last Annual Status Report (PFC2013-0099) was submitted to the Priorities and Finance Committee in 2013 April 02.

2014

- Non-residential and business assessment notices were mailed on January 03 and information on the progress and status of consolidation was included in an insert mailed with these notices (Attachment 4)

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- The *2014 Business Tax Rate Bylaw* was passed by Council on January 13 with a rate based on a 10 per cent transfer of revenue from business tax revenues to the non-residential property tax.
- Council also passed the annual the *2014 Business Revitalization Zone Tax Bylaw* and the *2014 Business Revitalization Zone Tax Rates Bylaw* on January 13.
- Administration mailed business tax notices with a business tax rate, as set by *2014 Business Tax Rate Bylaw*, 2014 February 03.
 - The business tax amounts on the tax notices will be 10 per cent lower than the revenue neutral amount shown on the 2014 business assessment notices
- Administration has prepared the *2014 Property Tax Bylaw* with the non-residential property tax rate reflecting an estimated 2.5 per cent increase due to the 10 per cent transfer of revenue from business tax revenues. It is expected to go forward to Council March 31.
- Administration submitted an Annual Status Report (this report) to the Priorities and Finance Committee which, pending approval will be forwarded to Council for information.
- Administration will present a report to Council, through PFC in May, recommending Council approve the 2014 property tax refunds that will be remitted to the limited benefit non-profit organizations approved for tax mitigation In November/December, the “business tax amount” will be adjusted for business growth and contingency to determine the 2015 “business tax amount” subject to the second incremental ten per cent transfer to the non-residential property tax and Council’s zero per cent business tax rate policy
- The last item in this cycle is the mailing of non-residential property tax notices which will occur in May. The cycle will repeat with the passage of the *2015 Business Tax Bylaw* next November/December.

b) Communications Plan

Consistent with the communications plan in Report PFC2012-35 the following actions have been taken since the last Annual Status Report (PFC2013-0099).

2013

- On July 26, reminder letters and application forms for the tax mitigation program were sent to the limited benefit non-profit organizations that have not applied as of the July 26th mailing date (Attachment 1).
- A letter was sent to non-residential property and business owners September 03 inviting them to participate in the 2014 Advanced Consultation Period (October 07 – November 07) and also advised them of the first incremental revenue transfer of business tax revenues to non-residential property tax (Attachment 2 and 3).
- From October 07 - November 07, Assessment held its 2014 Advance Consultation Period where non-residential property and business owners could understand the impact of the business tax revenue transfer to the non-residential property tax.

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- An insert informing non-residential property owners and business owners of the first incremental business tax transfer and the impact it would have to their 2014 property and business taxes was included with the 2014 Non-residential Property and Business Assessment Notices sent January 03 (Attachment 4).
- Consolidation related questions were, and will continue to be, answered by knowledgeable assessment staff through Assessment's Customer Inquiry Service, year-round.
- The business tax consolidation website <http://calgary.ca/btc> has been updated with the latest information.
- The business tax consolidation calculators, which help non-residential property and business taxpayers see the effects of consolidation in the future, will be updated in April to reflect 2014 business and property tax rates once the *Property Tax Bylaw* is passed by Council.
- An additional calculator, which will help non-residential property and business owners determine the tax amount they would have paid if consolidation had not occurred, will be available in 2014 when the non-residential property and business tax rates are passed by Council.
- An email was sent to limited benefit non-profit organizations in 2014 February that have applied and would have qualified for the tax mitigation program; however, they need to provide further documentation (e.g. valid letter from the property owner) in order receive a tax refund.
- A final reminder letter to limited benefit non-profit organizations that have not applied for the tax mitigation program will be mailed in April.

Council Direction 4: Reporting back to Council

a) Implementation Readiness Report

Report PFC 2012-0499 *Business Tax Consolidation – Implementation Readiness Report* was received by Council for information on 2012 September 24.

b) Annual Status Report

This report fulfils this direction for 2014; a similar report will be submitted to Council through the Priorities and Finance Committee in April of each year of the years from 2015 - 2019. In order to ensure that the tax refunds associated with the LBNP tax mitigation program are prepared and included in the 2015 annual status report, it is recommended that the report be presented to the Priorities and Finance Committee in 2015 May.

c) Final Report

A final report will be submitted to Council through the Priorities and Finance Committee in 2019 July.

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Council Direction 5: Review of mitigation options for limited benefit non-profit organizations

Through report PFC2012-0139, Council has approved the option to refund the non-residential property tax increase due to the consolidation to the limited benefit non-profit organizations that have been approved for tax mitigation for the 2014 and 2015 taxation years. The tax refund will be remitted to the property owner as it applies to the property taxes. If the approved non-profit leases the property or portion of it, the property owner is to pass on the benefit of the refund to the non-profit organizations.

As the 2014 property tax rate has not been finalized by the time of writing this report, the tax refund each approved organization should receive for the 2014 taxation year will be presented in a report to Council, through PFC, in 2014 May.

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.

As of the last Annual Status Report (PFC2013-0099), 40 customers have placed inquiries with respect to consolidation using this service. For the most part, customers have been interested in understanding the mechanics of consolidation and how the initiative will impact them. Assessment staff have been responding to these inquiries promptly and providing the necessary information to help property and business owners plan and budget for consolidation.

Strategic Alignment

Continuing with the consolidation process aligns with Council's 2012-2014 Fiscal 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 the BRZs agree on the idea of raising BRZ tax revenues through the non-residential property assessment system.

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

No economic impacts have been identified.

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Financial Capacity

Current and Future Operating Budget:

No implications were identified

Current and Future Capital Budget:

No implications were identified

Risk Assessment

The implementation of business tax consolidation is proceeding as planned and no risks in addition to those presented in PFC2012-35 have been identified.

REASON(S) FOR RECOMMENDATION(S):

At the time of writing this report, the 2014 property tax rate was not finalized. Therefore, Administration was not able to include the property tax refund recommendations associated with tax mitigation program for limited benefit non-profit organizations. In order to fulfill Council's direction, Administration will bring a second report to Council, through PFC, with the tax refund.

Deferring the *Business Tax Consolidation – 2015 Annual Status Report* to 2015 May when the 2015 property tax rate has been finalized allows Administration to present a consolidated annual status report that will include the tax refund recommendations associated with the tax mitigation for limited benefit non-profit organizations. Without Council's direction to defer the 2015 Annual Status Report to 2015 May, Administration will be bringing two separate reports again in 2015. The annual status reports for the four years following 2015 can be presented, as directed by Council, in April of each year, as the Limited Benefit Non-Profit Tax Mitigation Program will cease in 2016.

ATTACHMENT(S)

1. Reminder Letter to Limited Benefit Non-Profit Organizations
2. 2014 Advance Consultation Period Letter (Business Owners)
3. 2014 Advance Consultation Period Letter (Property Owners)
4. 2014 Business Tax Consolidation Insert