Matters Relating to Assessment Subclass (MRAS) Legislation

The term subclass refers to the dividing up of a property assessment class to intentionally shift the distribution of shared taxes within that class. Overall, the division does not increase or reduce municipal tax revenues.

New provincial legislation gives Council the discretion to divide the non-residential property into three subclasses: “small business”, “vacant” land and “other” non-residential property. This division would allow Council to set the municipal “small business” subclass tax rate at seventy-five per cent to one hundred per cent of the rate that would be applied to the other two non-residential property subclasses.

Potential Benefits

The prescribed criteria make it difficult to identify what types of property would be eligible. “Small business” non-residential property is defined as a property or portion of a property that is owned or leased by a business that is (1) operating under a business license or is otherwise identified in a municipal bylaw and (2) has fewer than 50 full-time employees across Canada on December 31 of the year before the tax year and (3) is not sub-leased to someone else. The legislation allows Council discretion to set a smaller maximum number of employees, additional qualifying criteria and to set an alternative cut-off date.

Administrative Considerations

Qualification and reporting requirements may introduce new administrative burdens and “red tape” for both business and property owners. In terms of reducing barriers to operating a small business within Calgary, there is no simple streamlined process to capture and record the necessary information and no guarantee a reduced tax rate could be passed from the landlord/property owner to a qualifying tenant. This in turn may impact their interest in acquiring a “small business property” classification. Therefore, creating a small business subclass may not benefit those who are most in need of support.

Currently, a property may be assigned one or both residential and non-residential assessment classes and any change in classification requires a lengthy process. The relevant tax rates are then applied based on proportion, not individual premises. If the property has more than one occupant, the total tax amount is distributed amongst the tenants by the landlord, usually set out in lease terms along with other operating costs.

Any changes to subclasses and tax rates on a property would involve additional administration for the landlord and some tenants incurring disproportionally higher property taxes than others. The property owner would be required to advise The City whenever there are changes to onsite business operations as tenancy, business ownership and numbers of full-time employees may change during the tax year.

Risks

The assessment subclass and tax rates must accurately reflect the property to ensure preferential tax treatment is not unfairly provided to properties that do not qualify. Property owners can file complaints at the Assessment Review Boards on their own and others’ properties regarding the classifications and sub-classifications applied. Because other non-residential properties will be required to carry a higher tax burden, there will be a financial motive for some businesses to alter staffing and or contracting practices to meet the full-time employee maximum.

Many businesses have multiple locations, particularly retail and foodservices businesses. It is possible that different locations will be classified and taxed at different rates. The City business licensing process does not distinguish between independent, locally-owned locations and those that may be owned and operated by a company with more than 50 employees across Canada.

In addition, not all businesses are required to have a municipal license to operate because the business activities are out of scope for Bylaw purposes or they fall under other regulatory or oversight bodies.

Implementation Considerations

The procedures to allow for the effective administration of assessment subclass and tax rates must be set out by municipal bylaw. The bylaw would have to include:

- an applied definition and criteria for "small business";
- a method for determining what businesses are or should be licensed;
- a method for determining and counting full-time employees, and verifying the accuracy of information on file;
- the "as of" date and the frequency of that count;
- in-year changes in occupancy due to businesses opening and moving.

The lead up to implementation would have to include:

- New tools to capture data in consultation with business and property owners
- Changes to Assessment and Tax IT systems to accommodate different subclasses and tax rates
- Additional licensing and business registration bylaws should Council wish to expand the types of businesses that might be included
- Changes to licensing and business registration processes to collect the necessary data based on small business property subclass definition
- Review and reclassification of all non-residential properties and businesses

Potential Systems costs

Assessment: Subclasses are not a component in the current system and were not within the scope of the system currently under development. New integration pieces would be needed, with significant expansion of approved budgets.

Tax: At a high level, developing an upgrade to the property tax system would require an estimated $1,000,000 (2018 $ estimate) with one year to develop and integrate Assessment and Tax systems.

Licensing: Estimated costs to license-related systems are unknown at this time; resources will need to be allocated for an evaluation and investigation of POSSE capabilities to capture required data.

Operating Budget Impacts

Should Council choose to establish the subclasses, an increase in staffing levels would be required for the administration of information collection and property reclassification, as well as additional FTEs for ongoing information management, property account maintenance and related customer service support.