

**Chief Financial Officer's Report to  
Priorities and Finance Committee  
2019 May 14**

**ISC: UNRESTRICTED  
PFC2019-0595**

## **Business Tax Consolidation – 2019 Annual Status Update and Final Report**

### **EXECUTIVE SUMMARY**

This report fulfills Council's direction arising from PFC2012-35 to provide both an annual status update to Council through the Priorities and Finance Committee in Q2 each year of the Business Tax Consolidation (BTC) process (2013-2019) and a final report no later than 2019 July.

In 2011, with the support of industry leaders, Council directed Administration to investigate the possible consolidation of business taxes with the non-residential property tax. The investigation determined that moving from a dual tax environment to a single tax on non-residential property would improve efficiency in the administration of Calgary's municipal tax system, cut red tape, and enhance transparency and economic attractiveness. Calgary was the last remaining municipality in Alberta still using a business tax on occupancy.

As of 2019, a cumulative 100 per cent of business tax revenues have been transferred incrementally to the non-residential property tax and the consolidation process is complete. The City is no longer levying a municipal business tax.

Administration is committed to prepare assessments for businesses within Business Improvement Areas (BIAs) until a suitable alternative is in place. There are currently 12 BIAs in Calgary. Throughout the consolidation process, The City advocated for changes to provincial legislation that restrict BIAs to using business assessment as the basis for levying BIA taxes. Significant progress has been made and the anticipated changes were included in the updated MGA; however, the new provisions have not been proclaimed and the intentions of the Government of Alberta are not clear.

In consultation with internal stakeholders and BIA representatives, an interim BIA business assessment process was developed for the 2019 tax year using end of lifecycle computer systems for billing and collection of the BIA tax. This has ensured BTC has no negative impacts on the ability of businesses to jointly raise and administer funds for various projects and promotional activities within their respective BIAs in 2019.

Capital expenditures would be required to maintain the computer systems past 2019; this is estimated to be in the range of \$2.5 million.

As discussed in 2012 and subsequent BTC update reports, once the legislation is in force Administration will recommend to Council that The City collect BIA taxes through the non-residential property base and systems.

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### **ADMINISTRATION RECOMMENDATION:**

That the Priorities and Finance Committee recommend that Council receive this report for information.

### **RECOMMENDATION OF THE PRIORITIES AND FINANCE COMMITTEE, 2019 MAY 14:**

That the Administration Recommendation contained PFC2019-0595 be adopted.

### **PREVIOUS COUNCIL DIRECTION / POLICY**

As Council direction on this topic is extensive, Administration has included an Attachment that summarizes and references all previous Council direction.

### **BACKGROUND**

Historically, Calgary has collected a property tax from the owners of non-residential properties and a separate business tax from the occupants of non-residential properties. Council received a report for information on the possibility of moving to a single tax in 2008. Through a Notice of Motion adopted by Council in 2011, Administration was directed to further investigate the development of an implementation plan for business tax consolidation; this was included in Council's 2012-2014 Fiscal Plan. Following Administration's consultation and communication with stakeholders, Council approved plans to incrementally transfer business tax revenues to the non-residential property tax over the period of 2013 to 2019. Administration has provided annual status reports to Council, including any potential issues or changes to ensure BTC proceeded as planned.

The consolidation process is now complete. The City no longer levies a separate municipal business tax as a cumulative 100 per cent of business tax revenues have been transferred incrementally to the non-residential property tax.

As discussed in 2012 and subsequent BTC update reports, Administration will continue to prepare business assessments to levy and collect the BIA tax until a suitable alternative is provided by the Government of Alberta.

In 2017, following consultation with internal and external stakeholders, the report PFC2017-0291 *Alternatives for the Collection of the Business Improvement Area Levy* was presented to Council for information. However, all alternatives to the existing business assessment-based process are contingent upon changes to provincial legislation and Regulations that were anticipated for 2018. The enabling provisions are still not in force and timelines are unknown.

### **INVESTIGATION: ALTERNATIVES AND ANALYSIS**

This section is divided into two in order to deliver report requirements. The first provides the annual analysis of progress on Council directions in PFC2012-35; it follows the same format as previous update reports. The second is a final reporting.

#### Annual Update on BTC Implementation Progress

As in previous progress update reports, the analysis below is grouped by the five Council directions provided in PFC2012-35.

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Council Direction 1: Recommendation to consolidate

As per the annual transfers approved in PFC2012-35 (table below), Administration transferred 20 per cent of business tax revenues to the non-residential property tax in 2019. This resulted in a 4.3 per cent increase to the 2019 non-residential property tax rate. Without consolidation, 2019 business tax revenue (including allowance for tribunal losses and estimated net growth) would have amounted to \$44.4 million; after the incremental 20 per cent transfer, business tax revenue amounted to \$0. The total cumulative increase to the non-residential tax rate is 19 per cent.

<b>Business Tax Transfer to Non-Residential Property Tax</b>			
<b>Year</b>	<b>Incremental Transfer (%)</b>	<b>Cumulative Transfer (%)</b>	<b>Non-Residential Property Tax Change</b>
<b>2013</b>	0%	0%	0%
<b>2014</b>	10%	10%	2.3% (actual)
<b>2015</b>	10%	20%	2.2% (actual)
<b>2016</b>	20%	40%	4.0% (actual)
<b>2017</b>	20%	60%	3.8% (actual)
<b>2018</b>	20%	80%	4.6% (actual)
<b>2019</b>	20%	100%	4.3% (actual)
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>19%</b>

Rivers District Community Revitalization Levy (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. These revenues are based on the consolidated non-residential property tax and so would include the transferred business tax amount. Corrections are made annually to (1) ensure the CRL revenues do not include unintended funds due to BTC, (2) maintain compliance with the CRL regulation, and (3) keep The City's operating budget whole.

Council Direction 2: Supplementary directions and policies

*Zero per cent business tax rate increase policy*

Actions taken since the last annual report (PFC2018-0190) include the continued application of Council's zero per cent business tax rate increase policy. 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).

As directed through NM2011-20, the policy will continue in the consolidated tax environment. Starting in 2019, the "business tax amount" will be adjusted based on non-residential property assessment growth rather than business assessment growth. The amount will continue to be subject to a zero per cent business tax rate increase equivalent.

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### *Business Improvement Area (BIA) Financing*

As directed through PFC2012-35, Administration will continue collecting BIA levies through a business assessment process until a suitable alternative is provided by the Province.

Although progress has been made since 2012, as of April 2019 the MGA amendments that would allow Council to impose a BIA tax on property or businesses (but not both) are not in force. Administration will continue to advocate for the unproclaimed sections and for the anticipated BIA-related Regulation that will address the practical applications of this provision.

### *Grants-in-lieu of taxes*

Canadian Pacific Railway, and provincial and federal governments will pay 2019 grants-in-lieu of 100 per cent of the consolidated taxes, even though they were not obligated to pay a business tax.

### Council Direction 3: Plans associated with consolidation

#### *Implementation Plan*

Consistent with the implementation plan in Report PFC2012-35, the following actions have been taken since the last annual status report (PFC2018-0190) in May 2018.

- On 2019 January 03, 2019 non-residential assessment notices were mailed and information on the completion of BTC was included in an insert with these notices.
- No business assessment notices were mailed; for cost efficiency, BIA business assessments were put on the BIA tax notices sent in February.
- On 2019 February 04, Council passed the *Business Improvement Area Tax Rates Bylaw 5M2019*.
- On 2019 February 08, the BIA tax bills with the levies set by Bylaw 5M2019 were mailed. Information explaining the completion of BTC, the administration and calculation of BIA taxes, and the associated assessment for the business was included with the mailing.
- On 2019 April 08, Council passed the *2019 Property Tax Bylaw 13M2019* with the non-residential property tax rate that reflects a cumulative 19 per cent increase and the business tax rate of zero due to BTC.
- The last item in the 2019 cycle is the mailing of property tax bills in May 2019.
- 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 for the foreseeable future.

#### *Communications Plan*

Consistent with the PFC2012-35 BTC communications plan, the following actions have been taken since the last annual status report (PFC2018-0190).

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- Quarterly reports were sent to the BIA Executive and Boards containing business membership and BIA levy collection information. Assessment and Tax responded to inquiries and requests for additional information through the year.
- Ad hoc communications and meetings between Calgary Neighbourhoods and BIAs occurred through the year and facilitated ongoing communication between Administration and BIAs.
- On October 15, Calgary Neighbourhoods, Community Planning and Assessment met formally with BIA representatives to discuss upcoming issues including BIA taxes and BTC.
- From October 02 - November 02, Assessment held the Pre-Roll Consultation Period (which replaced the previous annual Advance Consultation Period) to provide preliminary property assessment values and open up discussions with non-residential property owners, including any questions about the 2019 BTC transfer.
- BIA Executives were formally advised of the 2018 December 4 meeting of the Priorities and Finance Committee regarding the 2019 BIA Tax Bylaw and the late agreement that, for administrative cost savings for businesses and The City, The City would not bill or collect BIA tax from businesses with a BIA tax of \$25 or less. The BIAs were assured that this would not impact their budgets.

2019

- The insert included with non-residential property assessment notices sent January 03 informed non-residential property owners of the 2019 incremental business tax transfer and its impact on their property taxes. It also advised that business tax has been eliminated.
- 2019 Business Improvement Area process details (i.e. annual tax bills, quarterly reports), and information on business tax consolidation, amended annual and amended supplementary tax bills, customer review period, and an update on provincial legislation was sent to BIA Executive Directors and Boards to assist in their communications to member businesses on January 7.
- The BTC website [calgary.ca/btc](http://calgary.ca/btc) was updated to reflect the conclusion of the consolidation process and direct users to the new BIA Tax website [calgary.ca/BIAtax](http://calgary.ca/BIAtax) webpages and the main [calgary.ca/BIA](http://calgary.ca/BIA) page.
- BTC and BIA related questions will continue to be answered year-round by knowledgeable Assessment staff.

### **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 on progress were received by Council in 2013 - 2018.

#### c) Final Report

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In advance of the 2019 Q2 deadline for the final report and for administrative efficiency, this report combines the final report with the 2019 progress status update report.

### Council Direction 5: Tax mitigation for limited benefit non-profit organizations (LBNP)

As directed in PFC2012-0139, this program provided eligible LBNPs with tax relief for a three-year transitory adjustment period rather than the one-year period provided in the general consolidation implementation plan. Amounts equal to the annual BTC-related property tax increase to their business premises were refunded in 2014 (through PFC2014-0289) and 2015 (through PFC2015-0432).

### Final Reporting on BTC Implementation Process

In keeping with *Council Direction 4* above, this section is a final reporting on the completion of Council directions in PFC2012-35.

As of 2019 April 8, Administration has reached its performance target to have 100 per cent of business tax revenue consolidated into the non-residential property tax by 2019. The associated administrative efficiencies support One Calgary efforts to deliver service value in a financially restrained environment. These have included reductions in tribunal and related administration costs, assessment notice mailing, and tax bill mailing, collection and enforcement requirements.

The next table reflects the environment in 2011 when moving to a single tax was investigated, and the same administrative requirements in the 2018 and 2019 assessment and tax years.

<b><i>Annual Mailing*</i></b>	<b>2011</b>	<b>2018</b>	<b>2019</b>	<b>Change from 2011</b>
<b><i>Business Assessment Notices Mailed</i></b>	25,532	26,848	0	-100%
<b><i>Business Tax Bills Mailed</i></b>	25,558	27,049	5,386 (BIAs only)	-79%
<b><i>Total</i></b>	<b>51,090</b>	<b>53,897</b>	<b>5,386</b>	<b>-90%</b>

*\*(excludes notices and bills prepared for business openings within the year)*

As directed in NM2011-25, wherever possible the benefits and savings are being extended to non-residential property taxpayers. Most visibly, this is reflected in Assessment's new focus on customer experience and the capacity to be more responsive to the needs and service expectations of non-residential property owners. Assessment has been able to absorb the increased property assessment-related workload and volume that is due to the increase in number of non-residential accounts, and in the complexity of issues related to the non-residential assessment base.

### **Stakeholder Engagement, Research and Communication**

The preparation of this report involved representatives from Finance, Tax, and Assessment. Ongoing two-way communications with BIA representatives, and previous collaborative work

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with industry and business representatives, Calgary Neighbourhoods, and Calgary Community Standards was also used in report preparation.

The creation of the interim BIA assessment and tax collection processes used for 2019 was a collaborative effort between Assessment, Law, IT, Tax and Finance. Additional systems work required collaboration across divisions within Tax to ensure that the 2019 technical billing solution was viable.

Assessment maintains a year-round customer inquiry service to answer assessment and BTC related questions. During the 2019 Customer Review Period, 16 customers inquired about the mechanics of consolidation, the end of business tax and/or their BIA tax bill.

### **Strategic Alignment**

Completing the business tax consolidation and providing continued support for Business Improvement Areas supports One Calgary and the "A Prosperous City" Council Priority which notes that "Calgary continues to grow as a magnet for talent, a place where there is opportunity for all, and strives to be the best place in Canada to start and grow a business."

### **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 tax environment to a single tax on non-residential property has enhanced transparency and economic attractiveness.

### **Financial Capacity**

#### ***Current and Future Operating Budget:***

The BTC process has been revenue neutral to The City.

For 2019, Finance is adapting existing systems for billing and collecting the BIA tax and on-going manual intervention is required; this has resulted in continuing operational costs. While neither Assessment nor Finance experienced material implementation costs to develop an interim process for the 2019 tax year, it has been accomplished through a reprioritization of work, creating delays in other value-added work previously identified as a priority.

Going forward, the estimated annual operating cost of continuing to administer a business assessment process for the businesses currently located within BIAs is estimated to be \$300,000 annually.

#### ***Current and Future Capital Budget:***

If the content of the new BIA Regulation is not provided, Administration must seek Council's approval to continue levying the BIA tax on business owners and for any associated budgetary

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changes needed to enable billing, receivable and collection activity on this basis. This will require capital expenditures to replace existing systems, estimated to be in the range of \$2.5 million, which is unfunded. In 2019 on-going manual intervention is being used for quality control and to meet requirements to bill only businesses within BIAs. BTOOLS (Business Tools OnLine Suite), The City's business tax billing and collection system, is no longer supported and must be replaced as soon as possible to mitigate the high risk of system failure. A new module in PTWeb, The City's property tax billing and collection system, would have to be developed to handle all BIA-related billing, receivable and collection activity.

### **Risk Assessment**

There are no risks associated with the report.

Going forward, since business tax was the only relationship that The City had directly with the business (and not the owner of the property), there is an ongoing risk that it will be difficult to maintain current business contact and location information for businesses that don't have to be licenced by The City. The data is used by several different business units including Calgary Community Standards (CCS), Planning and Development, and Calgary Neighbourhoods. To ensure the Business Registry is the most accurate and up to date source of business information, Assessment's existing process of collecting tenant lists from building owners is being used with Business Licence resources (e.g. inspectors) to obtain information about business operators located on properties where owners do not voluntarily engage in Assessment's tenant list process.

If the anticipated changes to provincial legislation continue to be delayed or are deferred indefinitely there will be risks associated with the administration of the BIA levy. Continued use of BTOOLS presents undesirable high risks. Gathering requirements and work on a replacement system would have to begin mid-2019 to be ready in mid-2021 at the earliest.

<b>REASON FOR RECOMMENDATION:</b>
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The implementation of business tax consolidation has been completed.
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### **ATTACHMENT**

Attachment 1 - Previous Council Direction