

Calgary



# Non-Residential Assessment Sub-Classes

PFC2019-0559



ISC: Unrestricted

June 4, 2019 | Non-Residential Assessment Sub-Classes

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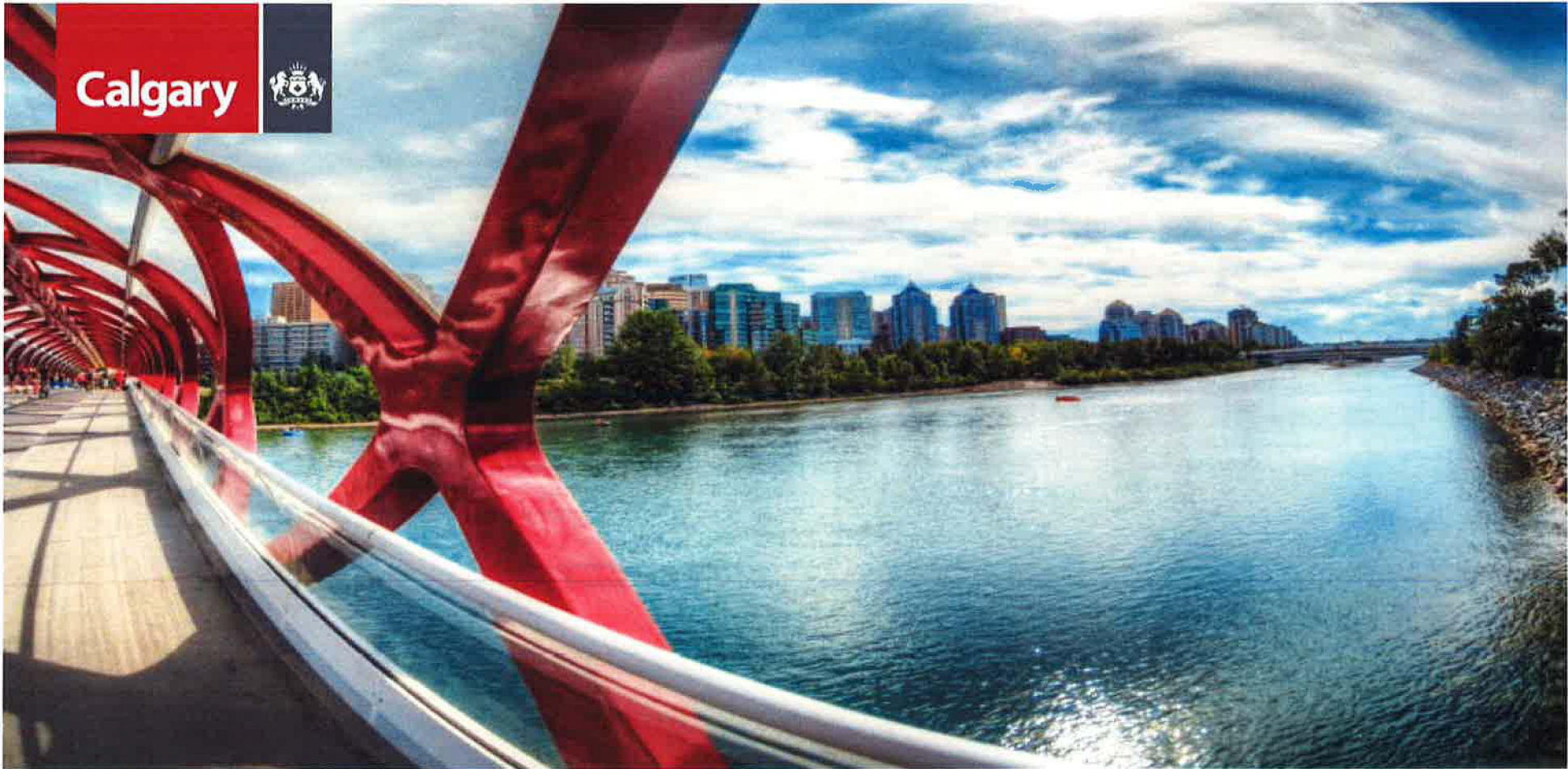
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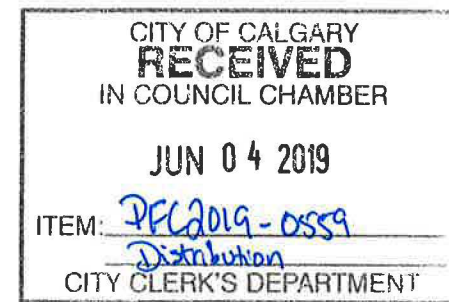
## Non-Residential Assessment Sub-Classes

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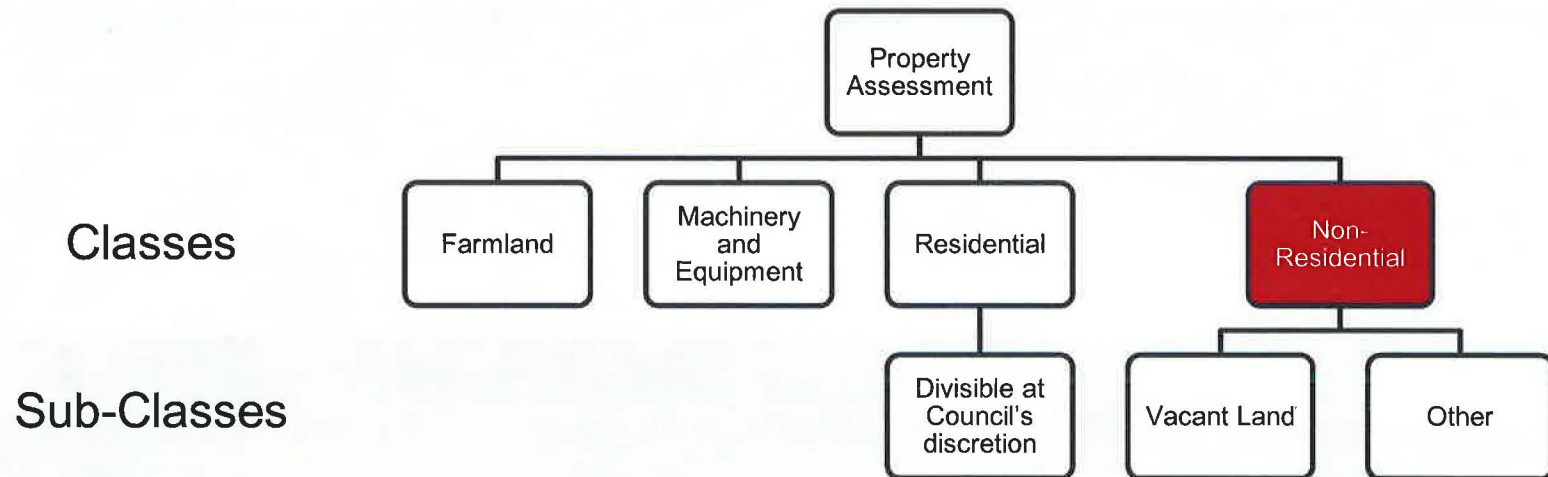


## Background



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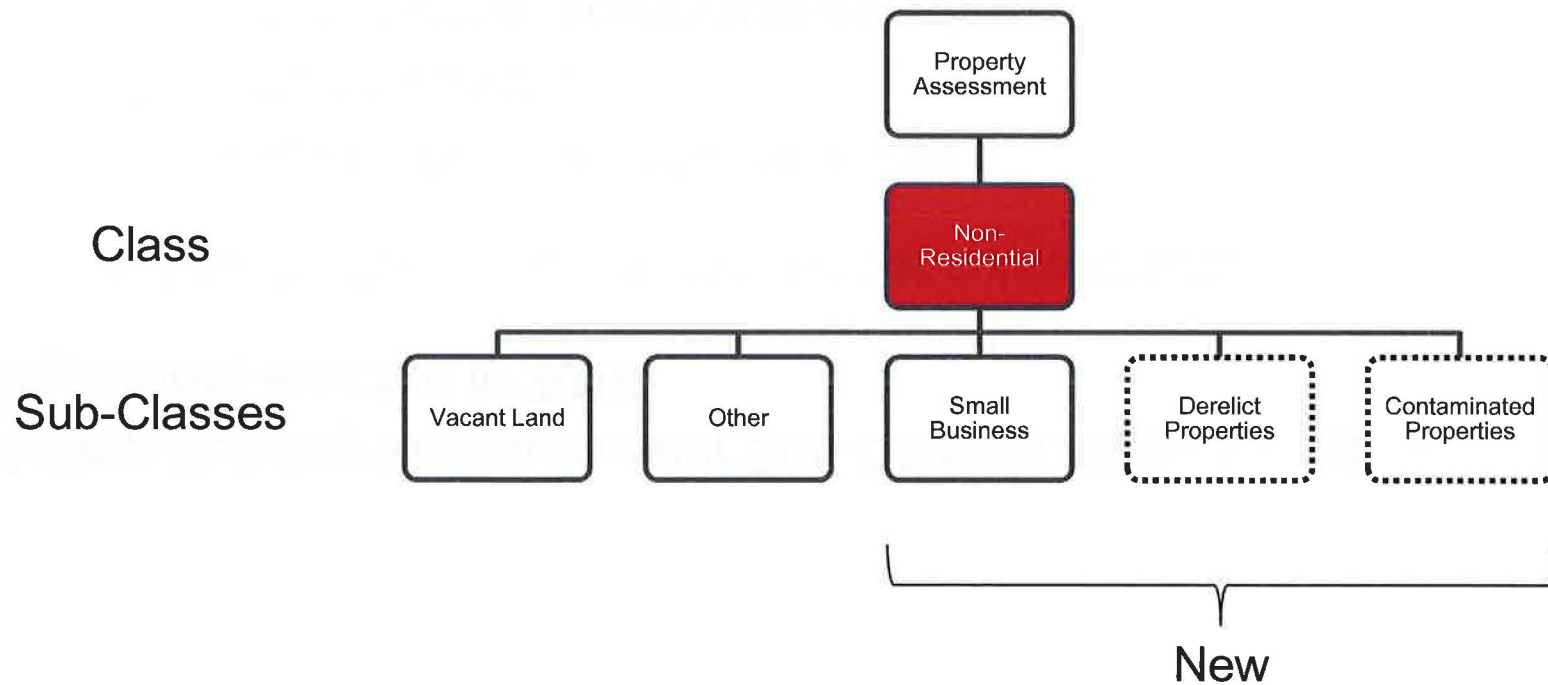
- Assessment classes and available sub-classes prior to 2018:





- *Matters Relating to Assessment Sub-Classes Regulation (the Regulation)* enacted in 2018
- Establishes the following non-residential sub-classes:
  1. Vacant non-residential property
  2. Small business property
    - Property owned or leased by a business
      - a) operating under a business licence or that is otherwise specified in a municipal bylaw and
      - b) that has fewer than
        - i. 50 full-time employees across Canada, or
        - ii. A lesser number of employees as set out in a municipal bylaw
  3. Other non-residential property

- Assessment classes and available sub-classes **today**:





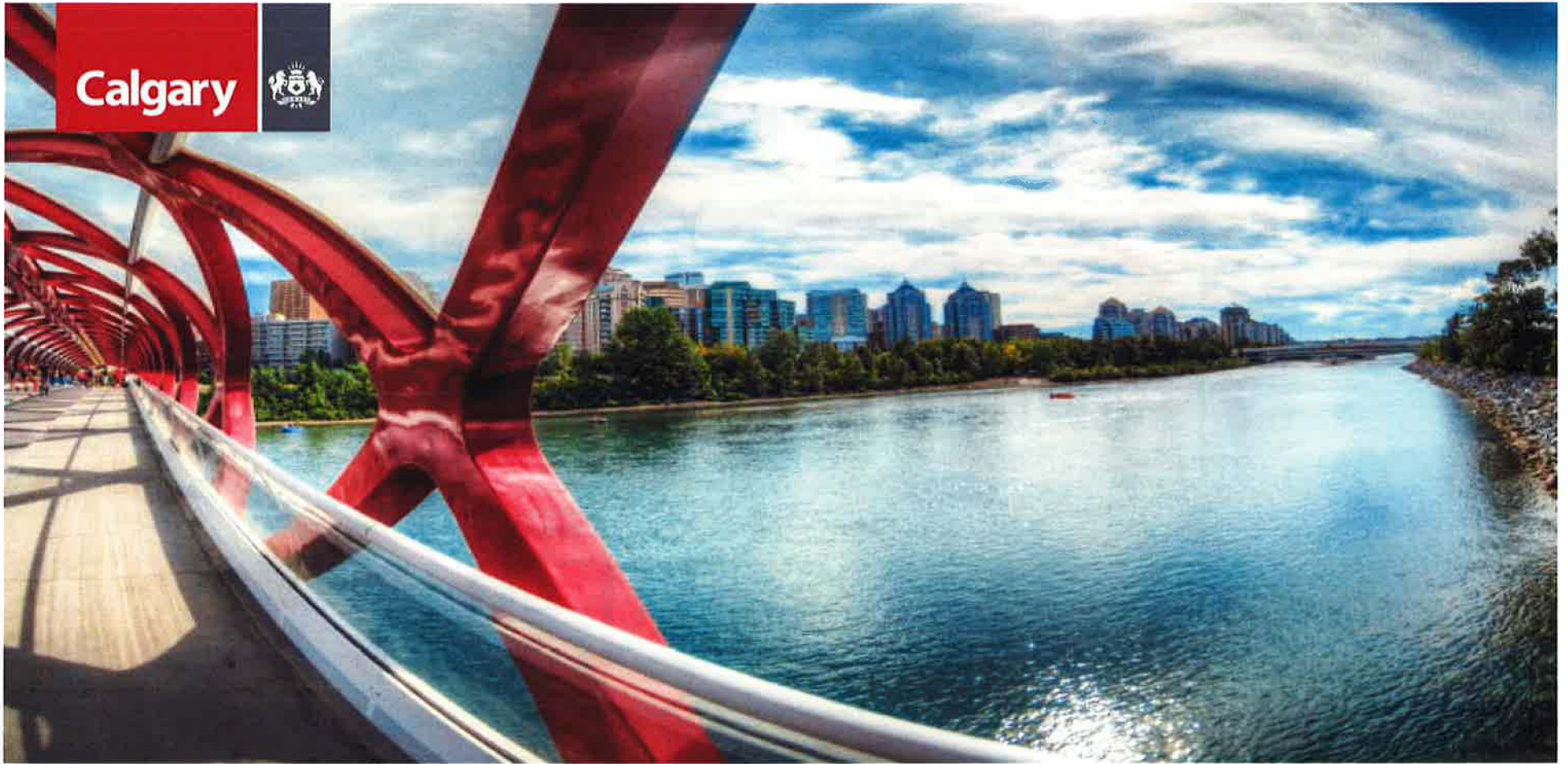
How sub-classes work:

- Sub-classes are an **optional** tool for a municipality
- If enacted, **at least** two sub-classes (e.g. Small Business and Other) must be created in order to differentiate tax rates within the class
- Sub-classes are applicable only to **municipal property tax**
- Sub-classes **re-distribute** municipal non-residential property taxes from one group (e.g. Small business property) to another (e.g. Other); they are not meant to change the total non-residential tax collected
- Sub-classes are applied to the overall property assessment; which is issued to **property owners**, not tenants



Other jurisdictions within Alberta:

Have implemented small-business sub-class	Have <u>not</u> implemented small-business sub-class
Wood Buffalo (rural only)	Edmonton
Rocky Mountain House	Red Deer
M.D. of Bonnyville	St. Albert
Rocky Mountain House	Lethbridge
Vermillion River County	Medicine Hat
Thorhild County	Airdrie



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## Implementation Requirements

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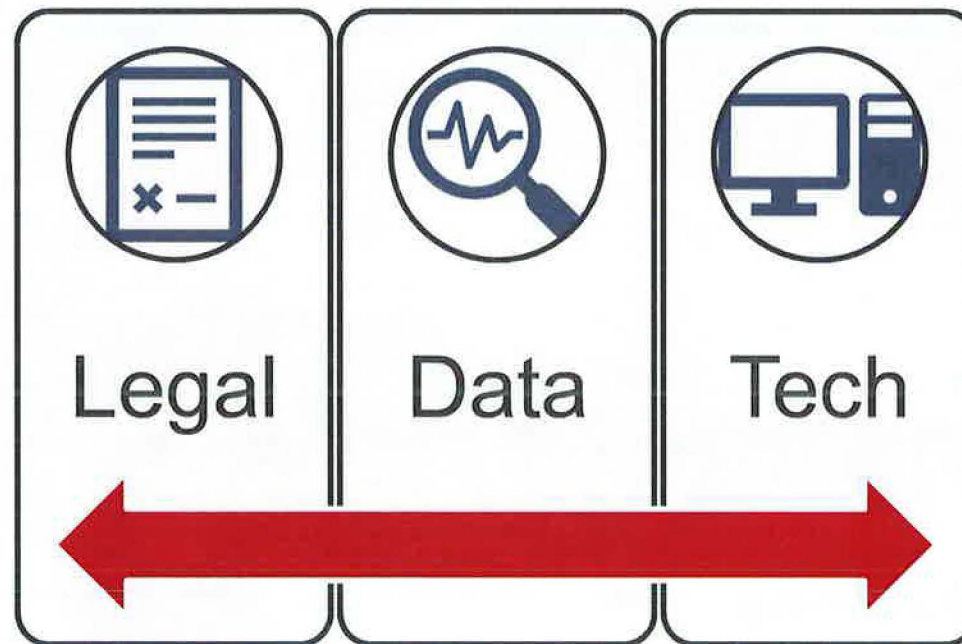
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## Implementation Requirements

- To successfully implement non-residential assessment sub-classes, investment would be required in three broad areas:







# Implementation Requirements



## Legal requirements

- New **Bylaw** would be required; would include:
  - Full-time, Canada-wide employee count required to be eligible for SBSC (50 or less; or a lesser threshold as set by Council)
  - Definitions for undefined terms (e.g. full-time employee) and procedures required for administering sub-classes
- Current **Property Tax Bylaw** must be modified to include non-residential sub-classes and their applicable tax rates, as set by Council
  - Small business sub-class tax rate is restricted to be between 75% to 100% of the Other tax rate



# Implementation Requirements



## Data Requirements

- The following data would be required:
  - **Business licence status** for each business in Calgary (could be avoided through bylaw)
  - The **location** of all businesses in order to identify which properties (or portions thereof) are owned or leased by a small business
  - Full-time, Canada-wide **employee count** for those businesses



# Implementation Requirements



## Data Requirements

- Current data status:
  - **Business licence** data is incomplete as licences are only required for approximately half of businesses operating in Calgary
  - Business **location** data is incomplete as businesses not requiring a licence do not always provide location information through Business Licensing and Property Assessment stopped tracking business location data after the elimination of Business Tax (with the exception of BIAs)
  - No existing data on **employee count**



# Implementation Requirements



## Data Requirements

- Necessary data could be collected through two broad options:
  - Through Property Assessment
    - Would require a capital investment of \$150,000 to \$450,000 and an annual operating investment of \$650,000 and 5 FTE (currently unfunded)
  - Through Business Licensing
    - Would require all businesses to obtain a licence (or register) in order to ensure fulsome data
    - Would require a capital investment of \$20,000 and an annual operating investment of \$7.9 million (currently unfunded)



## Technological Requirements

- Current IT systems and work plan do not include sub-class functionality
- The following services' systems would require capital investment:

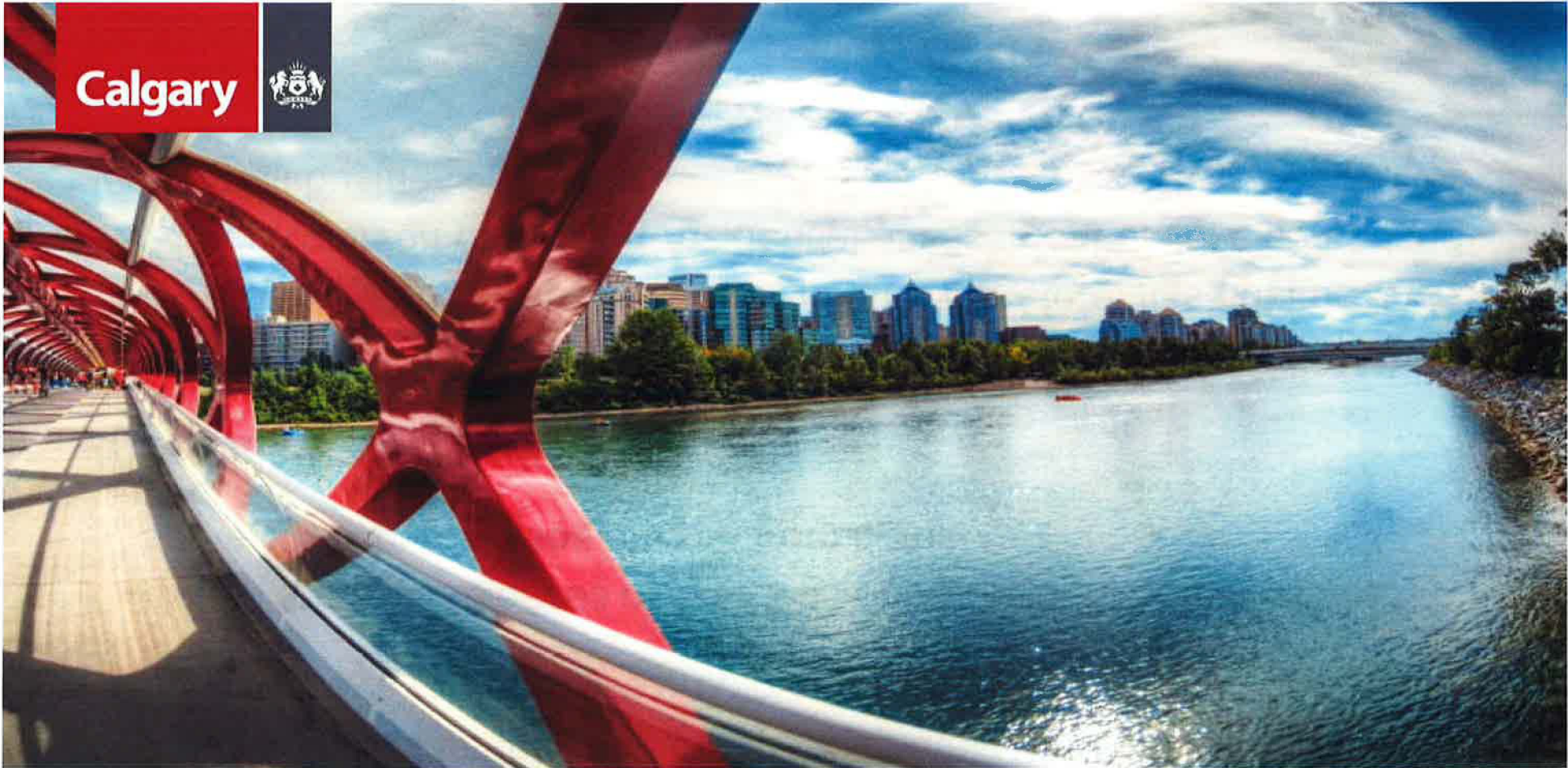
Service	Estimated Cost
Property Assessment*	\$500,000
Taxation	\$750,000
Appeals and Tribunal	\$5,000
<b>Total</b>	<b>\$1,255,000</b>

- Estimated development timeline is approximately 18 months

# Implementation Requirements

	Cost Estimate	
	If data collected through Property Assessment	If data collected through Business Licensing
<b>Capital</b>		
Data collection	\$150,000 to \$450,000	\$20,000
Technology	\$1,255,000	\$1,255,000
<b>Total capital budget</b>	<b>\$1,405,000 to \$1,705,000</b>	<b>\$1,275,000</b>
<b>Operating</b>		
Data collection	\$650,000	\$7,900,000
Communication	\$500,000	\$500,000
<b>Total operating budget</b>	<b>\$1,150,000</b>	<b>\$8,400,000</b>
<b>Total cost</b>	<b>\$2,555,000 to \$2,855,000</b>	<b>\$9,675,000</b>





## Projected Tax Implications

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# Projected Tax Implications

## What We Know:

- Third-party data suggests that approximately 95% of businesses in Calgary have less than 50 employees
- Not all small businesses own or lease non-residential real estate; some small businesses are run from home

## What We Do Not Know:

- Of the small businesses in Calgary, it is not known how many of them **own or lease** non-residential real estate; therefore, it is not known what proportion of the non-residential assessment base is comprised of small business property.



# Projected Tax Implications

## What We Estimate:

We estimate there are at least **25,000** small businesses occupying non-residential properties in Calgary, accounting for approximately 60 per cent of the total taxable non-residential assessment value.



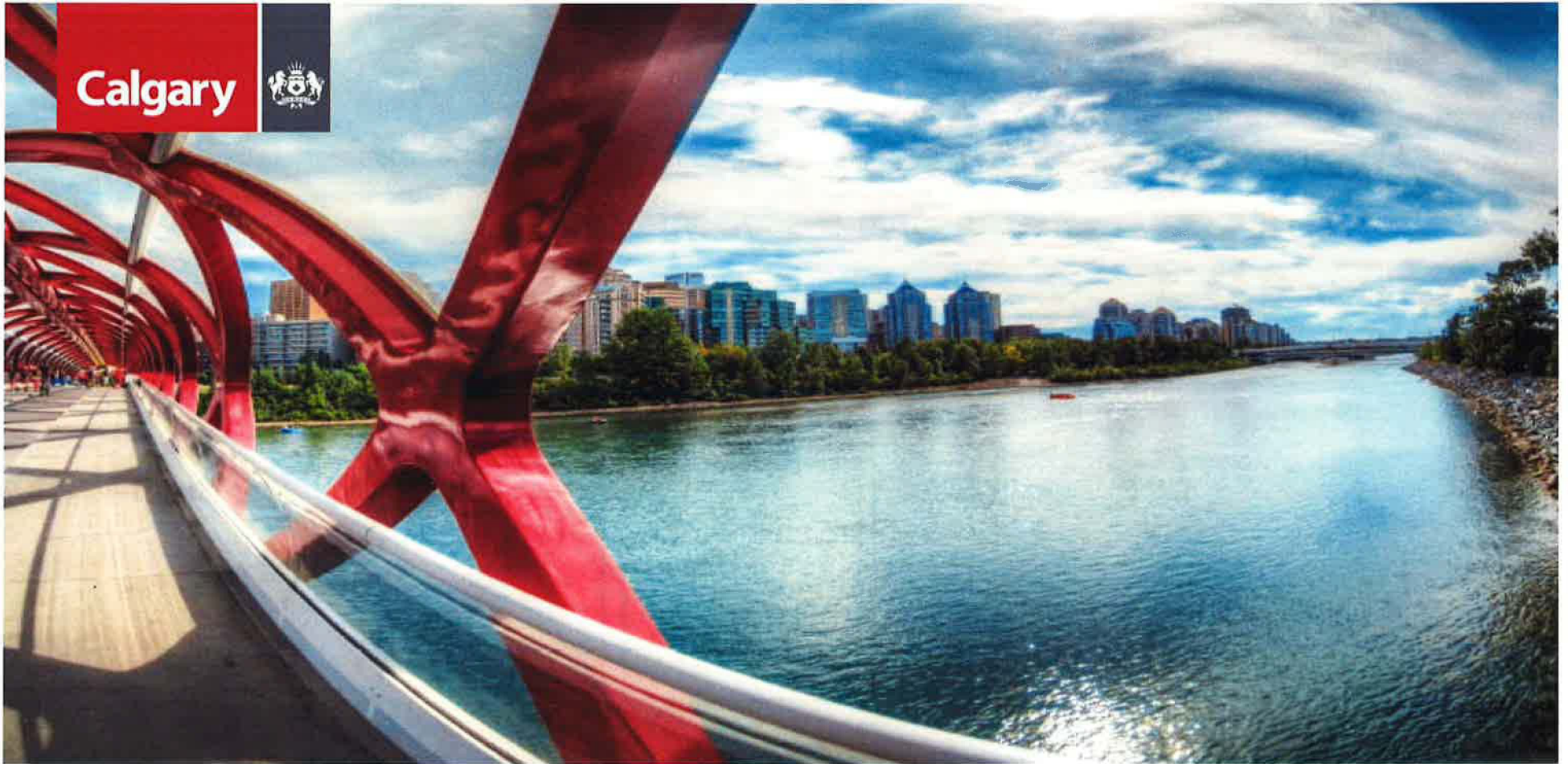


## Projected Tax Implications

Assuming small businesses account for 60% of the non-residential tax class and they are taxed at 75% of the Other rate:

- **\$73 million** of municipal taxes would be re-distributed from small businesses to “large” businesses
- The tax burden of the SBSC would decrease by approximately **12%**
- The tax burden of the Other and Vacant sub-classes would increase by approximately **18%**





## Projected Scenarios

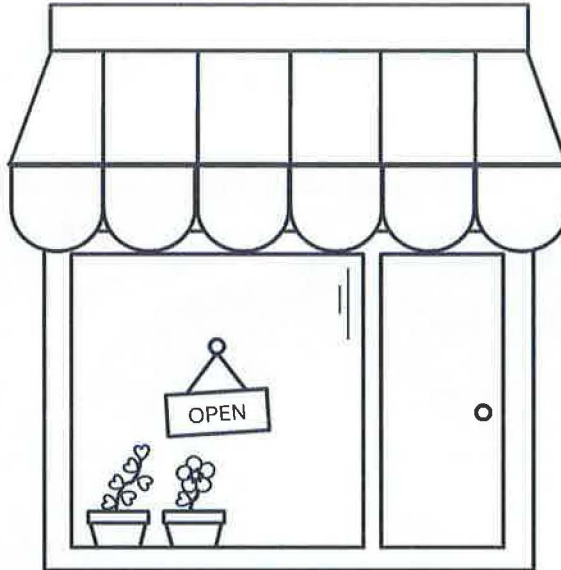
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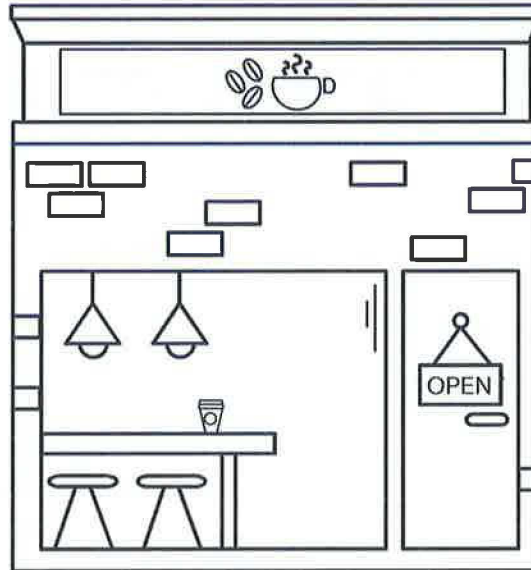
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# Projected Scenarios



Freestanding Retail		Muni. Tax Implication	
Owner	Small Business	Current taxes	\$17,775
Lessee	Small Business	Future taxes	\$15,600
Assessment	1,000,000	Change	(\$2,175)

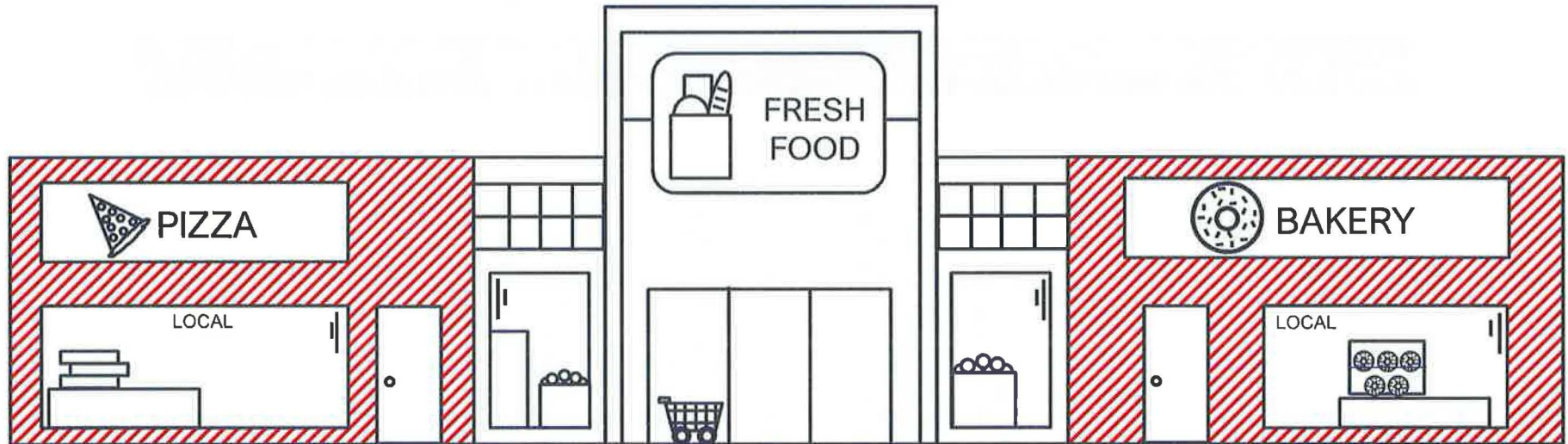
# Projected Scenarios



Freestanding Retail		Muni. Tax Implication	
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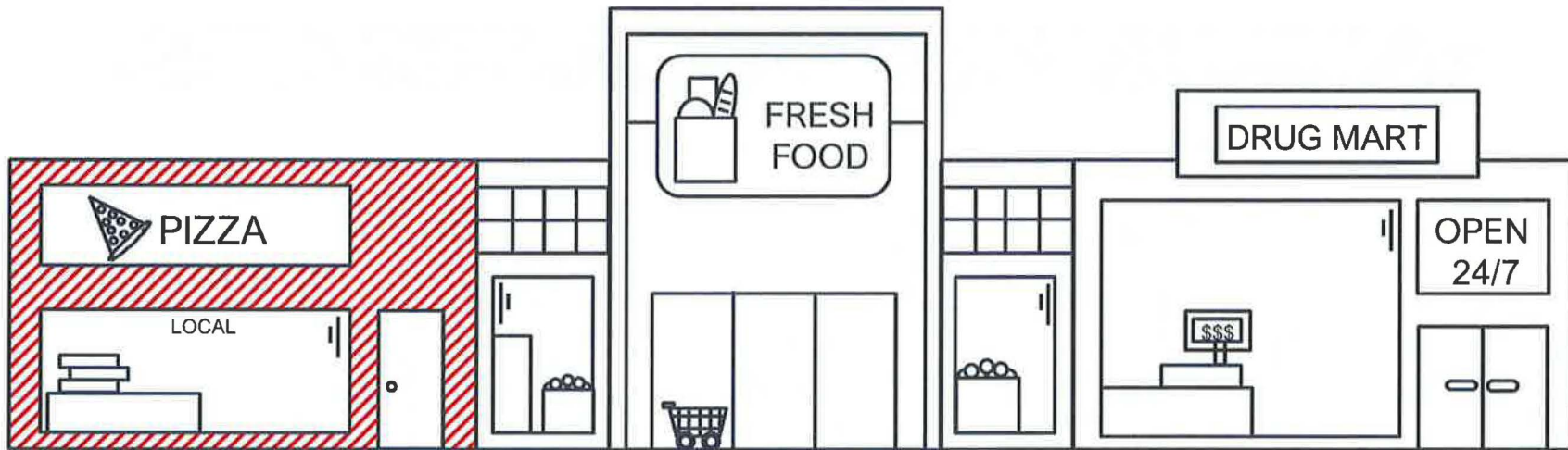
# Projected Scenarios



Strip Shopping Centre		Muni. Tax Implication	
Owner	Large Business	Current taxes	\$88,875
Lessee	2/3 small; 1/3 large	Future taxes	\$86,439
Assessment	5,000,000	Change	(\$2,436)

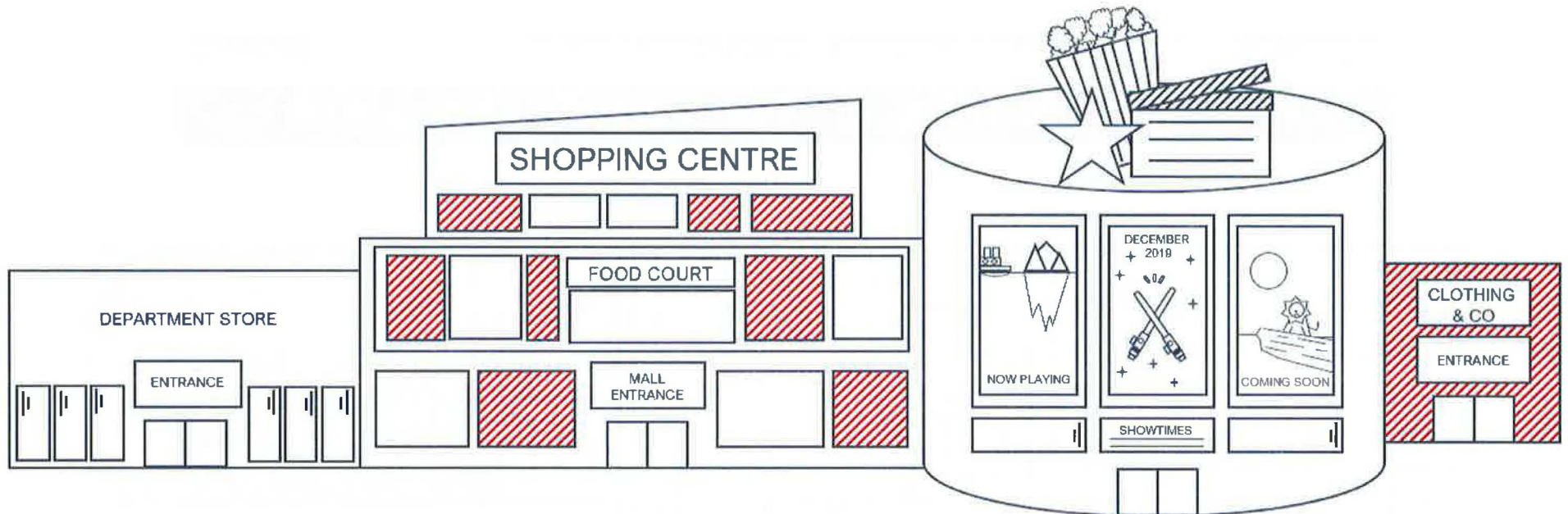


# Projected Scenarios



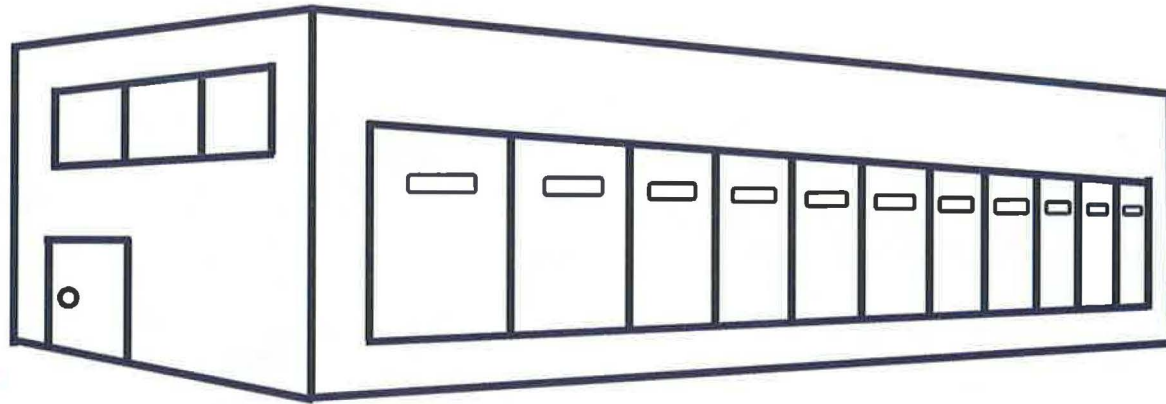
Strip Shopping Centre		Muni. Tax Implication	
Owner	Large Business	Current taxes	\$88,875
Lessee	1/3 small; 2/3 large	Future taxes	\$94,877
Assessment	5,000,000	Change	<b>\$6,002</b>

# Projected Scenarios



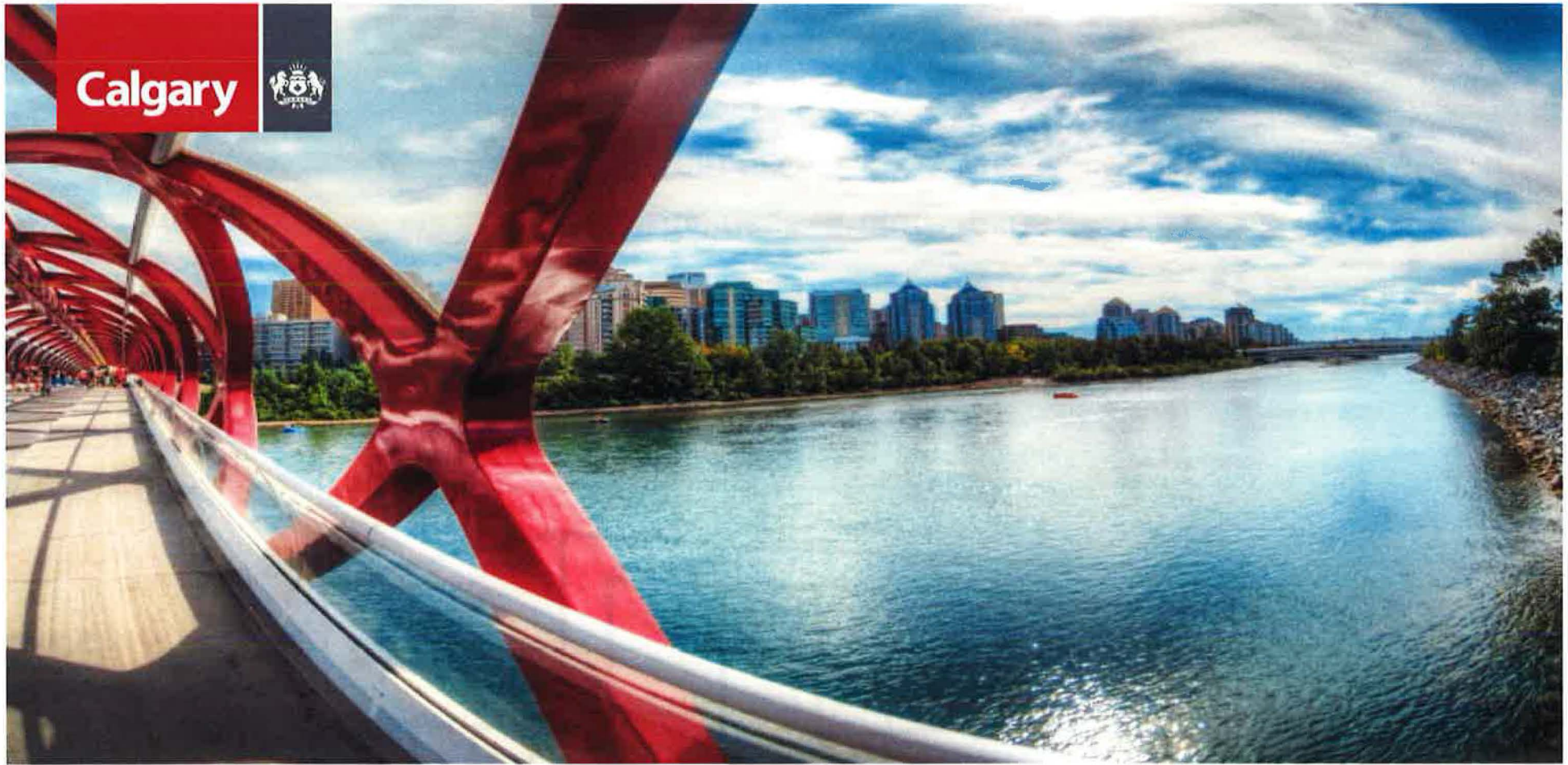
Regional Shopping Centre		Muni. Tax Implication	
Owner	Small Business	Current taxes	\$13.3 mil
Lessee	Mixed	Future taxes	\$11.7 mil
Assessment	750,000,000	Change	(\$1.6 mil)

# Projected Scenarios



Large Distribution Warehouse		Muni. Tax Implication	
Owner	Large Business	Current taxes	\$1.8 mil
Lessee	Large Business	Future taxes	\$2.1 mil
Assessment	100,000,000	Change	<b>\$288,800</b>





## Additional Issues/Risks

- **Holding Companies**

- The 60% estimate of the proportion of SBSC in the NR tax base does not include the complexity of holding companies
- If holding companies qualify, nearly the entire NR base would be classified as SBSC, and those property owners who do not currently utilize holding companies would likely change their legal structure, which would nullify the system
- The procedures of the sub-class bylaw could attempt to restrict eligibility to exclude holding companies, but
  - i. Determining the ownership structure of companies across Canada would be complicated and administratively cumbersome, and
  - ii. Legal challenge would be highly probable.



## Additional Issues/Risks

- **Sub-Leasing**
  - *The regulation* appears to disqualify sub-lessees from being eligible for the SBSC, regardless of whether they are a small business (section 2(4))
- **Franchises**
  - Franchises would likely qualify for the SBSC





## Administration Recommendation

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