REPORT OF THE TAX COMMITTEE FOR ANNUAL GENERAL MEETING APRIL 29, 2008

WHAT ARE THEY DOING TO US NOW?

There have not been many new developments since our report in 2007, but a number of developments previously reported are kicking in this year. Both the Province and the City are implementing programs to solve the problems created for small business by Current Value Assessment. The renowned economist, Milton Friedman, once remarked that Government's solution to a problem is usually as bad as the problem. You be the judge.

HOW DO YOU SPELL R-E-L-I-E-F?

The City's two-pronged relief program continues. The first prong is adjustment of the ratio of tax rates between commercial and residential property. The goal is a ratio of 2.5:1, which, if achieved, would be a huge improvement over the recent ratios of four or five to one. Don't expect to see any reduction on your tax bill from this one. The target ratio is to be achieved by 2020 (theoretically 2015 for "small business", a term which has never been defined) by raising taxes, not lowering them. If you increase everyone's taxes, but increase the residential rate more quickly than the commercial rate, sooner or later, the goal is reached. Clearly the City does not anticipate that its appetite for revenue will be satiated anytime soon.

The second prong starts this year, specifically the graduated tax. If you think that the City can't distinguish between income tax and property tax, you got that right. The first one million dollars of assessed value on commercial property will be taxed at a lower rate, while that portion of the assessed value over one million will be taxed at the regular rate. Initially the first tier was to have been $600,000.00. It was TABIA's urging which prompted the City to set it at a million.

On some properties you might see some real benefit from the graduated tax. The rate of tax is supposed to be coming down by a factor of 1.29. That would make a significant difference on a million dollars, but what savings you will see depends on the value of the building and how its tax burden is spread across its occupants. The enormous disparities in the benefit from the reduced rate are well illustrated in the example appended to this report which, by the way, is an example which we provided to the Mayor when the idea of a graduated tax was first mooted. A Shoppers Drug Mart in a stand-alone store will reap the entire benefit, while a small business tenant in a multimillion dollar plaza will see almost none. The entire CVA (Current Value Assessment) system, from assessment to the applicable rate, is more like a lottery than a tax.

MORE R-E-L-I-E-F?

Also starting this year is the Province's program to provide a uniform rate (1.6%) for business education tax across the province, by the year 2014. The Government introduced this program in its 2007 Budget with great fanfare, announcing that it would save commercial property owners hundreds of millions of dollars in tax. It picked up a lot of excellent media attention with that provision. We doubt that you will ever see any relief from it. Painfully slow implementation and fast rising assessments will thwart any reductions for Torontonians.

BIG GUYS GET REAL RELIEF

A number of the major office towers in downtown Toronto appealed their assessments for 2001 & 2002 (valuation date, June 30, 1999). They were spectacularly successful at the Assessment Review Board. As the amount of money in issue is huge, we expect that the case will gravitate into the courts, and will not likely be resolved for years. The arguments and the decision are far too technical to try to explain here, but the issues revolved around long-term leases. While it is difficult to see any direct or significant effect of this decision on the vast majority of our membership, if you are a landlord or a tenant with a long lease, and if you are contemplating appealing an assessment, you or your advisers should take a look at the case.

BIG GUYS GET MORE RELIEF

Thanks to the assiduous work of John Kiru, we have new data which illustrates something we have long suspected; small guys are subsidizing the big box stores. The assessed value of space occupied by small business is far higher than the assessed value of an equivalent amount of big box space. Hence, that small business space produces a far higher tax return to the City. Your Tax Committee is still gathering evidence to bolster that case, and will be considering how to use that information to achieve a more level playing field.

IF ALL HELL DOESN'T BREAK LOOSE, I MAY LOSE MY PROPERTY

The biggest news is what's coming down the pipe, a new assessment with valuation date of January 1, 2008. You will be receiving your assessment notices in the mail later this year. This assessment may set us right back to where we were in 1998, the first year of taxation under CVA. Real estate values have been surging since the last assessment, and the new assessment will reflect that. As usual the increases will not be even, but some properties will increase enormously and others less so. Watch out if you're in a successful BIA. The Province's decision, to phase the new values in over the four year period until the next assessment, is likely to prove cold comfort. In 1998, assessment-based increases were capped at 2.5% annually, and the tax rate was frozen. Now there is no rate freeze, and the caps have been jigged several times. Now assessment-based increases can rise as much as five percent of your destination tax, that is, five percent of what you would be paying if there were no caps. Obviously that will affect everyone differently, because everyone has a different destination tax. But until you reach your destination tax, we anticipate that you will suffer increases far higher than you have ever seen before.

Those taxpayers who have struggled the most under CVA, homeowners in parts of Toronto which have appreciated disproportionately in value, waterfront cottage owners, and businesses, will continue to struggle, and many will not be able to keep their properties.

REAL SOLUTIONS

We think this mess can be resolved, but it will take some grass-roots effort. TABIA will do its utmost to produce real relief, but TABIA cannot do it alone. It will require the effort of the individual BIA's, and the effort of their respective memberships. If even a portion of the membership of a majority of BIA's would convey their upset by writing or telephoning their political representatives, you would see a sea change in the attitude of the politicians to your plight. It's not difficult to do, and requires very little time. A simple one-paragraph e-mail, courteously outlining your upset, sent to the appropriate politicians, or a telephone call to the constituency office, would do it. We think every BIA should, as a BIA, send such communication signed by its Chairperson, and should assist and encourage their members to do the same. It would work wonders.

TABIA stands ready to do everything it can to help you and your members. Contact information is readily available on the internet, and TABIA will provide it if you can't find it. If you sit back and wait for others to so it, this tax abuse will continue and you will pay a heavy price.

Lastly, we still have some protest posters from last year which you can get from the TABIA office to install in your store windows and at your events.

Graduated Tax

Assumptions

First level of graduated value is $500,000
Tax on first level is 2%
Tax on value over $500,000 is 5%

Example One – 1,500 square foot building assessed at 500,000

Single tenant occupies whole building (1,500 sf)	
Tax is: 2% of 500,000 =	10,000
Total tax without graduation: 5% of 500,000 =	25,000
Tenant gets 100% of the benefit of the graduated rate	
Saving for tenant is	15,000

Example Two – 15,000 square foot building assessed at 5,000,000

Ten tenants, each occupying 1,500 sf	
Total Tax on building is: 2% of first 500,000 =	10,000
5% on $4,500,000 =	225,000
Total tax: 10,000 + 225,000 =	235,000
Share of tax borne by each tenant 235,000/10 =	23,500
Total tax without graduation – 5% of 5,000,000 =	250,000
Share of tax borne by each tenant 250,000/10 =	25,000
Saving for each tenant is 25,000-23,500 =	1,500
Each Tenant gets only 10% of the benefit of the graduated rate	
Saving for each tenant is 1/10 of 15,000 =	1,500