Finance and Audit Committee (New) New Multi-Residential Property Tax Subclass

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Property Assessment, Property Class and Tax Distribution

- In Ontario, individual property tax liabilities are calculated by applying a tax rate against the property's assessed value
  - Assessments are to be based on the "current value" of the land; synonymous with market value estimated as of a specific, uniform point in time.
  - We are currently using January 1, 2016 Market Values as the basis for taxation
- Each property is also assigned to a property class based on its actual or intended use
- It is the addition of this second variable that allows the tax burden to be distributed or shared on the basis of:
  - **Relative Property Value**; and
  - **Property Use** (expressed as classification)

Property Assessment, Property Class and Tax Distribution

- Each property class is assigned a Tax Ratio, which allow us to adjust the balance of taxation among classes.
  - Outwardly, Tax Ratios express the relationship between each class rate and the residential tax rate.
  - Functionally, Tax Ratios actively manipulate or alter the distribution of the tax burden.

		Residential	Multi Residential	New Multi Residential	Commercial	Industrial	Farm
							
CVA	1,000,000	825,000	10,000	10,000	53,000	15,000	87,000
Share of CVA	100%	82.5%	1.0%	1.0%	5.3%	1.5%	8.7%
Tax Ratio		**1.0000**	**1.6000**	**1.0000**	**1.5000**	**2.1000**	**0.2500**
Tax	$10,000	$8,386	$163	$102	$808	$320	$221
Share of Tax	100%	83.9%	1.6%	1.0%	8.1%	3.2%	2.2%

- Tax ratios determine the relative ***Weight*** of a property's assessment value in relation to the entire weighted base.
- Changing a tax ratio does not result in any overall tax gain or loss, it simply changes the ***Balance of Taxation.***

Property Subclasses

- Property Subclasses can be used to further refine the tax treatment of certain property types by reducing the effective weighting derived from the tax ratio alone.

	Residential	Multi-Residential	New Multi-Residential	
			Full Class	Subclass
				
CVA	**1,000,000**	**1,000,000**	**1,000,000**	**1,000,000**
Tax Ratio	1.0000	1.6000	1.0000	1.0000
Subclass Discount	0%	0%	0%	35%
Effective Ratio	1.0000	1.6000	1.0000	0.6500
Tax Rate	1.00%	1.60%	1.00%	0.65%
Tax	**$10,000**	**$16,000**	**$10,000**	**$6,500**

- Each prescribed subclass has its own set of rules that dictate whether it is mandatory or optional, and the range of flexibility for setting and adjusting discount factors.
- The new multi-residential subclass is optional and allows for a maximum discount of 35%.

Overview of the Multi-Residential Property Tax Class

- In simple terms, the Multi-Residential property class includes properties that:
  - Are improved with a building or complex containing **seven or more self-contained residential units**, all captured under a single roll number; and
  - **Vacant land** zoned for multi-unit residential use improvements.

- Multi-residential class buildings can include traditional (vertical) apartment buildings, townhouse complexes, and even collections of detached homes, provided they are located on a single assessment parcel under unified ownership.

- In addition to the main class, there are two levels Farmland Awaiting Development (FAD 1 and 2)
  - These subclasses generally only apply to land in the late stages for preparation that was still being actively farmed.

NEW MULTI-RESIDENTIAL PROPERTY CLASS

Captured Property

- Inclusion in the New Multi-Residential Class is purely a function of timing and includes any property that would otherwise qualify as multi-residential if the subject units were built, or converted from another use, under a building permit dated after:
  - The date on which the host municipality opted to have the class apply; or
  - April 20th, 2017, the date on which the class ceased to be an optional property class. ***(NUC Effective Date)***
- The new multi-residential class does not include land zoned for multi-residential use.

Duration of New Multi-Residential Classification

- Properties classified as new multi-residential are transitioned to the standard multi-residential class after 35 years.
- For example, a property added to the New Multi-Residential class on December 31, 2020, will (theoretically) be reclassified to the standard multi-residential class as of January 1, 2055.

(New) New Multi-Residential Subclass

Captured Property

- The newly introduced New Multi-Residential Subclass is optional and will only apply if the County adopts it via by-law.
- If adopted, the subclass would capture any new multi-residential complex that would otherwise be eligible for the **new multi-residential class**.

Tax Treatment

- Municipalities that choose to adopt this subclass may set a discount of up to 35% pegged against the new multi-residential class.
- There is no discount applied to the Provincial Education Rate.

Duration of Treatment

- Eligible properties will revert to the **traditional multi-residential** class after 35 years.

Policy Logic and Considerations

CONSIDERING LOWER MULTI-RESIDENTIAL TAXES

- Housing may be the most prominent and ubiquitous municipal policy issue of the past decade (or more)
- In the property tax realm, we have seen a significant and sustained downward trend in multi-residential tax ratios
  - Northumberland County has reduced its multi-residential tax ratio from 2.216 in 2017 to 1.60 in 2024, a decrease of almost 30% to date.
  - If Council continues with its 2023 / 2024 migration trend, multi-residential property will be at parity with the residential and new multi-residential classes by 2027.
- Reducing the property tax burden on multi-unit housing sends a clear, housing-positive signal to landlords, tenants, and the broader public.
- Lowering tax rates can directly reduce rental costs for tenants and lessen expenses for municipally owned housing, enhancing overall sector viability.

Without detracting from these points, decisions around adopting the new multi-residential subclass should be well informed and aligned with realistic policy objectives and expectations.

Considering the Positives

The following represent some of the most objective “pro’s” to consider in relation to this subclass.

Housing and Rental Friendly Signaling:

- Lower tax rates for new multi-residential properties may send a positive signal to developers, landlords, and tenants, thereby reinforcing and even improving the municipality’s image as being supportive of housing development.

Lower Tax for Municipal Housing Projects:

- The subclass would reduce the taxes payable on future municipal housing projects as well as private builds
  - For a County owned project, the net benefit would be limited to the local portion of the taxes and may not be seen as a “pro” from the local perspective.

No Immediate Impact or Volatility:

- Unlike altering an existing tax ratio, there will be no immediate *tax shifts*.
- The new subclass will emerge gradually and while other classes may carry marginally more tax than they otherwise would, existing taxpayers will not experience any perceptible “spikes” or “shifts”.

Considering the Incentive Factor

The potential effectiveness of the subclass in spurring additional rental construction remains uncertain but I encourage caution in basing any decision to adopt on expectations that it will serve as an incentive or impetus to new builds.

Decisions to Build are Complex

- Most development decisions hinge on factors like land availability, infrastructure, financing, and market demand—variables that generally outweigh marginal tax incentives.

Expect Only Modest Impact on New Construction Decisions

- Offering the subclass may help a municipality stand out compared to those that do not, potentially tipping the scales for developers choosing between similar jurisdictions.

Experience from New Multi-Residential Class

- A historical review of multi-residential tax treatment, and the adoption of the new multi-residential class when it was optional revealed no measurable correlation between municipal tax treatment and rental housing development.

While it would be unreasonable to suggest outright that the subclass would have no impact housing, basing a decision to adopt the subclass on an expectation that it will drive new builds is likely unrealistic.

Considering Equity

- The issue of equity among existing and potential taxpayers should be part of the conversation.
  - Differential tax treatment based solely on the building permit date has the potential to raise questions and concerns around equity and fairness.

In this illustration, the only factor driving the tax differential is the date of the building permit.

	Multi-Residential	New Multi-Residential	
		Full Class	Subclass
			
CVA	1,000,000	1,000,000	1,000,000
Date of Building Permit	**March 2017**	**May 2017 >**	**Adoption By Law >**
Tax	**$16,000**	**$10,000**	**$6,500**
Discount vs. Multi-Residential	**0.0%**	**37.5%**	**59.4%**
Discount vs. Multi-Residential with ratio at 1.4	**0.0%**	**29.6%**	**53.6%**

- I suggest the risk is greater, and potentially more material in municipalities with higher multi-residential ratios and/or where no ratio reduction plan is in place for the multi-residential class.

PREDICTING IMPACTS

- Determining how eligible properties will be taxed in relation to other property is fairly straight forward and following table shows the effective discounts and differentials under a range of scenarios.

Multi-Residential Tax Ratio	New Multi-Res.	New Multi-Residential Subclass Discounts			
		5%	*10%*	*20%*	*35%*
1.6000	-37.5%	-40.6%	-43.8%	-50.0%	-59.4%
1.4000	-28.6%	-32.1%	-35.7%	-42.9%	-53.6%
1.2000	-16.7%	-20.8%	-25.0%	-33.3%	-45.8%
1.0000	0.0%	-5.0%	-10.0%	-20.0%	-35.0%

Lower Multi-Residential Ratio = Lower Tax Differential

Higher Discount = Higher Tax Differential

- Quantifying exactly what this will mean on a property-by-property basis would be a very speculative exercise because the treatment will apply to properties that don’t currently exist.
- Similarly, the ability of consider impacts and implications for other property classes, and the distribution of future tax levies is limited.
- MTE can prepare models to suggest the general magnitude of potential impacts, however, they are only intended to give us a “sense” of the potential impact and must be heavily qualified.

Thank You

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