# Financial Analysis and Estimated Impact of Optional Small Business in York Region

Most of the benefit from a property tax discount would come from the lower education taxes and not from the regional or local property taxes

Staff evaluated different methods to implement the Subclass in York Region.

The average commercial property pays approximately 55% of its tax bill to the province for education taxes, as such, most of the savings for York Region small businesses would only be realized if the Province agrees to match York Region's discount.

Chart 1: Breakdown of a Business Property Tax Bill
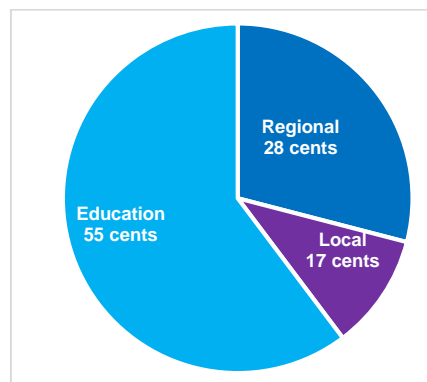
For illustration purposes, assuming a 30% discount is provided, a small business operating in a location with an assessment of $375,000 would realize a tax break of about $150 monthly (all-in taxes).

There are over 54,000 businesses with employees in York Region

York Region is home to approximately 54,000 businesses located in 23,703 business properties, with value distribution as depicted in Chart 2.

Chart 2: Distribution of Business Properties in York Region by Assessment Value

Commercial count: 21,573
Industrial count: 2,130
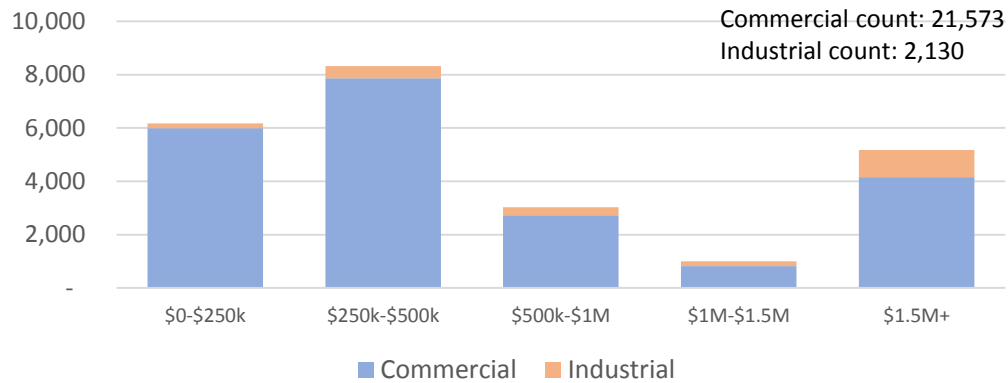
As the program would be based on property tax assessment and focused on small businesses, the baseline analysis is based on property assessments of $500,000. Setting the discount threshold at $500,000 would cover 61% of all business class properties in the Region, excluding parking lots, vacant land, and large industrial properties.

Several methods of defining "small businesses" have been explored

Business-based methods

A discount leveraging the characteristics of the business occupying a property including employee size, business revenues, business type could be considered. However, implementation of such a program would be difficult as there is no reliable data source on the revenue or employee count on an ongoing basis. In addition, discounts based on criteria such as employee headcount may have unintended consequences such as reduced hiring. As such, these methods are not currently included in the scope of the preliminary analysis.

Property-based methods

Property-based methods have been explored in other municipalities. Staff developed five methodologies using a combination of location or physical attributes to define small businesses in the Region.

Method 1: A discount to all eligible commercial properties with an assessment up to $500,000 with the discount funded by all taxable properties including residential properties.

- This method would keep 2020 and 2021 property tax ratios constant.

Method 2: A discount to all eligible commercial properties with an assessment up to $500,000 with the discount funded by other business class properties.

- The commercial and industrial property tax ratios would be increased to mitigate the impact on residential properties.

- Some municipalities may have to increase their local residential property taxes if they do not have enough large businesses to fund the discount of the local portion of property taxes.

Method 3: Providing a discount to all properties within a designated Business Improvement Area ("BIA")

Method 4: Providing a discount to properties with certain "property codes" which are likely to house small businesses

- As part of the assessment process, MPAC assigns each property a numerical code based on the type of structure that is built on the property

- Staff reviewed all the MPAC property codes and identified 41 that would likely house a small business

Method 5: Providing a discount to eligible commercial properties below a certain square footage threshold

- This method utilizes the list of property codes with a limit of 800 square feet and an assessment limit of $500,000

While a 30% discount is used for the purpose of the analysis, municipalities have the discretion to implement a discount of any amount up to 35%. The financial implications of each of the five methods can be found in Table 1.

Table 1: Financial Implications of Various Subclass Scenarios

| | # of Properties | Cost of the Discount | | | | | | Average All-In Tax Impact Per Property | |
		% of Taxable Business CVA	% of Taxable Business Properties	Regional	Local	Education	Total	Savings to Business Properties	Costs to Other Taxpayers*
Method 1 **CVA - $500K - Funded from all classes**	14,492	8.3%	48.2%	$5.0M	$3.7M	$10.3M	**$18.7M**	**($1,291)**	• $22 increase to average home • 3.6% increase to business properties
Method 2 **CVA - $500K – Funded from other business and industrial**	14,492	8.3%	48.2%	$4.6M	$4.2M	$10.3M	**$18.9M**	**($1,304)**	• $6 increase to average home • 4.6% increase to business properties
Method 3 **Business Improvement Areas**	836	3.3%	2.8%	$1.6M	$1.5M	$3.3M	**$6.4M**	**($7,631)**	• $6 increase to average home • 1.0% increase to business properties
Method 4 **Property Codes – Original**	9,120	8.0%	13.3%	$3.9M	$2.2	$7.9M	**$14.1M**	**($1,542)**	• $14 increase to average home • 2.6% increase to business properties
Method 5 **Property Codes – with Square Footage and CVA Caps**	5,076	3.2%	16.9%	$1.5M	$0.8M	$3.1M	**$5.5M**	**($398)**	• $5 increase to average home • 1.0% increase to business properties

* $ tax increase to average home if funded from all classes, % increase to business properties if funded from business classes