

Hamilton Chamber of Commerce Taxation Levels on Vacant Properties

Background:

In 1998, under Current Value Assessment legislation, the Province introduced reforms to the property tax that included deleting the business tax billing process where commercial and industrial taxes were billed directly to tenants of commercial and industrial properties. Commercial tenants were charged an average of 30% of property taxes while the industrial rate was 35% of property taxes.

With the 1998 changes the onus was now on the property owner to collect the taxes directly from their tenants and to remit one payment to the taxing authority. This process provided municipalities with increased tax security as they had first rights to the property if taxes were to go three or more years in arrears. It also greatly reduced the number of billings, collection costs, etc. Under the old system municipalities had to deal directly with the tenants and any arrears had to be collected through the use of collection agencies or bailiffs. Hundreds of thousands of tax dollars were lost each year through bankruptcies, refusals to pay, collection agency and bailiff fees. The process was also costly from a billing perspective and assessment perspective with tenants coming and going on a regular basis.

The new process was a significant improvement to municipalities while at the same time being confusing to all involved. Many adjustments were made to the process as a result of province-wide complaints from commercial and industrial property owners. The province first introduced capping legislation to limit large tax increases as a result of assessment changes, adding further complications. The Province legislated a vacancy rebate program in 2001 to return the 30% and 35% taxes that would be similar to the old system that the tenants were responsible for.

Section 364 of the Municipal Act 2001 legislates that municipalities must provide for a 30% tax reduction for any commercial space vacant for 90 consecutive days or more. For industrial properties the rate is a 35% tax reduction. As an illustration, in the last three years that this program has been in place the average annual cost to the City of Hamilton alone has been \$3,022,253 for an average of 480 properties per year.

While it is generally conceded that commercial and industrial owners should be allowed such a tax break while they ready vacant space for rent; but if the property remains vacant after one year, then the rebate program offers no incentive for them to rent out their space. Thus, in an effort to encourage more commercial and industrial property owners to rent their vacant space to tenants, which would benefit the greater community through increased employment and decrease the potential tax increases being borne by other properties.

This would not only help reduce lost municipal revenue due to the vacancy rebates, but would also lead to reduced administrative costs for municipalities by eliminating the processing of vacancy applications (e.g. the City of Hamilton has estimated that this would reduce administrative costs by approximately \$945,000 per year based on approximately 150 properties that have multiple year vacancy rebates.)

RECOMMENDATION:

The Ontario Chamber of Commerce urges the Government of Ontario to:

Amend the vacancy tax rebate program for commercial and industrial taxes so that commercial and industrial property owners be limited to one year of the prescribed rebate, after which if the property is still vacant, the owner will be responsible for the full Current Value Assessment taxes applicable.