



AGENDA ITEM

Small Business Property Assessment Sub-Class

December 12, 2019

BACKGROUND

During the modernization of the Municipal Government Act in 2017, the provincial government introduced changes to the Act that allowed for a separate small business assessment sub-class. The addition of this sub-class allowed municipalities to create a separate municipal tax rate for small business from the non-residential rate charged to all other commercial and industrial property assessments. Details of what was a small business were defined in a separate regulation called the Matters Relating to Assessment Sub-Classes Regulation.

In addition to creating a process to define a small business, the regulations set out the limits of the differential in the small business tax rate relative to the other non-residential tax rate. The regulations also stipulate that the creation of the sub-class must be done by-law and the municipality must create some form of registration process.

Implementation of this initiative in rural municipalities has been limited. None of the counties surrounding Lacombe County have adopted the initiative. There are several counties that have adopted the initiative, including Smoky Lake County, Thorhild County, MD of Bonnyville #87, Cypress County, MD of Pincher Creek, and the Regional Municipality of Wood Buffalo.

ANALYSIS

The intent of the sub-class was to provide tax relief to small business who have a much smaller impact on the municipality and municipal services such as roads¹ compared to other non-residential properties. The regulation has been put in place to provide limits to this tax differential.

It should be noted as well that this sub-class would only apply to the portion of a property assessed as industrial or commercial. Businesses located on a property assessed as residential (such as a home-based business) or agriculture would not be eligible. The sub-class would be applied against **all** commercial and industrial properties owned or leased by the business.

¹ MGA Review, Splitting Non-Residential Property Tax Rate, <https://mgareview.alberta.ca/whats-changing/municipality-funding/>, Alberta Municipal Affairs, 2017.



Should Council consider implementing an assessment sub-class bylaw, the following policy decisions must be answered:

1. Definition of a small business. The regulation currently defines a small business as a business with no more than 50 full time employees across Canada or a lesser number as defined by Council.

A review of other bylaws shows that the 50 number is the figure most commonly used although one of the municipalities has set the limit at 25. There is no clear rationale for the difference.

2. Method of registration. Council must include in their bylaw how business become eligible for the sub-class. For some municipalities, they use their annual business license renewal process. For others, they use a specific application for eligible businesses. In all the examples reviewed, businesses are required to apply on annual basis. The County has no business license registry so an annual application process would be required.

Most municipalities require that this information be submitted by December 31st prior to the tax year. This is consistent with most of the existing bylaws currently in place although one who introduced their bylaw in 2019 had a March 31, 2019 deadline. In order to confirm assessments for the year, a January 31st deadline would be required in order to implement for 2020.

3. The Tax differential. The regulation limits the tax rate for the small business sub-class to a maximum of 75% of the non-residential tax rate. A comparison of other municipalities reveals a divergent set of rates. A number of the municipalities have created a sub-class but not a different tax rate. Others have a small business tax rate that is 90% and 98% or their primary non-residential tax rate. Of those who have set their small tax rate at the maximum of 75%, their underlining tax rate is significantly higher than Lacombe County's (on the order of 4 to 5 times the County's tax rate).

ALTERNATIVES

1. Create a small business assessment sub-class assessment bylaw using 50 employees as a threshold, with a 75% tax rate, and annual application process with a December 31st registration deadline. This means the bylaw would not take effect until 2021.
2. Create a small business assessment sub-class assessment bylaw varying any of the three criteria.
3. Decline to create a bylaw and accept this report for information.
4. Direct Administration as Council sees fit.



BUDGET IMPLICATIONS

The assessment department has prepared a rough estimate of the potential number of eligible properties. The department has estimated that 327 properties would be eligible if applied for with another 150 properties being potentially eligible.

This would result in a loss of revenue of approximately \$115,000 to \$260,000. The most obvious solution to make up this lost revenue is to apply the lost revenue to the remaining non-residential assessments which mean an increase of 0.46% to 1.09% in the non-residential tax rate.

The impact on a small business would vary depending on the assessment value for the properties eligible for the reduction. As an example, however, a small business with eligible properties assessed at \$500,000 would see a savings of \$683 on their tax bill. For a non-eligible property with the same assessment value, the impact would be an increase of \$27. This assumes the maximum 75% ratio.

LEGISLATIVE RESPONSIBILITIES

1. Section 297(2) of the Municipal Government Act, RSA 2000, c-M-26 provides the authority to Council to divide non-residential properties into sub-classes by by-law.
2. Section 354 of the Act requires that a separate tax rate must be created for each assessment class and sub-class.
3. The Matters Relating to Assessment Sub-Classes Regulation (202/2017) sets out the rules for enacting Section 297(2) of the Municipal Government Act (the "Act")

PUBLIC PARTICIPATION

Should Council direct Administration to prepare a bylaw, Administration would inform the public of Council's decision and Administration would promote the program to potential eligible small businesses through the County's regular communications channels and encourage registration in the program.

STRATEGIC PLAN

The following elements of the County's Strategic Plan are relevant to this issue:

Our Vision: "An attractive, balanced and progressive community".

Our Mission: "Building a safe and vibrant community through leadership, innovation and the development of healthy relationships".

Key Principles: 1) "Fair and Objective in our decisions and in how we treat



individuals”, and 2) “Accountability for our decisions and for our actions”.
Service Delivery Strategy: “Provide appropriate service levels to our citizens”
Key Success Measures – Financial Viability: “Diversity/ strength or our tax assessment base” and “Taxation and fee levels”
Strategies: – Strategize how to deal with losses in revenue

RECOMMENDATION

That Council decline to adopt a small business assessment sub class bylaw and accept this report for information.

PREPARED BY: Michael Minchin, Director of Corporate Services

A blue ink signature of Michael Minchin, written over a square box.

REVIEWED BY: Tim Timmons, County Manager

A blue ink signature of Tim Timmons, written over a square box.