



AGENDA ITEM

Small Business Property Assessment Sub-Class Bylaw

March 11, 2021

BACKGROUND

At its July 28, 2020 pre-budget meeting, County Council adopted a resolution directing Administration to prepare a report regarding the creation of a small business sub-class bylaw.

As a reminder, 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.

Council previously considered this in December of 2019 and decided not to proceed for the 2020 tax year. Since Council last discussed this bylaw, the number of rural municipalities that have adopted a similar process has increased from five to nine though only seven of the municipalities have actually adopted a lower tax rate.

The following is a list of rural municipalities who adopted the small business sub-class bylaw and their respective 2020 tax rates.

Municipality	2020 Municipal		
	Non-Residential Rate	Small Business Rate	%
MD of Bonnyville #87	14.5000	11.6000	80%
Clearwater County	7.9942	5.9957	75%
Cypress County	5.3440	4.6458	87%
MD of Pincher Creek	9.3400	9.1568	98%
Smoky Lake County	19.9257	19.9257	100%
Thorhild County	23.2061	17.4046	75%
MD of Taber	9.3978	9.3978	100%
County of Vermilion River	14.9312	13.4042	90%
Regional Municipality of Wood Buffalo	9.6543	7.2407	75%
Average	12.6993	10.9746	87%



Based on examples from other municipalities, Administration has drafted a proposed bylaw for Council's consideration.

ANALYSIS

The intent of the sub-class was to provide tax relief to small businesses who have a much smaller impact on the municipality and municipal services such as roads 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** eligible commercial and industrial properties owned or leased by the business.

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. The draft bylaw retains the 50-employee figure.

One of the risks associated with this bylaw, is that there may be larger businesses registering that have a large contractor contingent and very small employee figure. Under the bylaw they would be eligible.

2. Method of registration. Council must include in their bylaw how a business becomes 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. The typical deadline is December 31st or earlier, though some municipalities have deadlines early in the current year. 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.

The proposed bylaw identifies a form that would be required to be completed. For 2021, Administration has proposed an April 30th deadline and subsequent years the deadline would be February 15th. This latter deadline is consistent with deadlines the County has for finalizing other assessments.



The risk associated with the annual application process is the additional paperwork required of both the County and property owners. In reviewing tax bylaws for 2020, Administration noticed a relatively small amount of businesses assessed classified as small business for many of the communities. This registration process may have an impact on this lower figure.

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. As the table shows, there is a variety of tax rate differentials used. In fact, two communities do not have a differential at all while 3 of the 9 use the 75%, including neighbouring Clearwater County.

The other observation is that most counties (except for Cypress County) have a significantly higher tax rate for non-residential properties than Lacombe County. Even the small business tax rate for six of the municipalities is two to four times higher than Lacombe County's current tax rate.

As tax rates are established by a separate tax rate bylaw, Council could adopt this sub-class bylaw and then determine the actual tax rate at budget time. As the table above shows, 2 municipalities do not have a separate small business tax rate. Administration does not recommend this approach.

ALTERNATIVES

1. Adopt the bylaw as presented.
2. Vary the bylaw by reducing the number of employees in the definition of a small business. If Council chooses this alternative, third and final reading can not take place until the next meeting. Reducing the number of employees would effectively reduce the number of eligible businesses.
3. Accept this report as 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. This range would be worst-case situation assuming high enrollment rate. A scan of tax rate bylaws reveals that the impact of the small business assessment sub-class varies significantly among the municipalities:



Municipality	Small Business Assessment	Annual Cost
MD of Bonnyville #87	68,546,670	198,785
Clearwater County	7,288,800	14,567
Cypress County	57,104,660	39,870
MD of Pincher Creek	9,282,220	1,701
Smoky Lake County		-
Thorhild County	6,617,070	38,389
MD of Taber		-
County of Vermilion River	32,557,190	49,715
Regional Municipality of Wood Buffalo		
Average	30,232,768	42,878

The 2021 budget does not include any allowance for a reduction in taxes brought about by the introduction of small business sub-class. The most obvious solution to make up this lost revenue is to apply the lost revenue to the remaining non-residential assessments which means 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, a small business with eligible properties assessed at \$500,000 would see a savings of \$683 on their tax bill at 75% and as low \$365 using 87%. For a non-eligible property with the same assessment value, the impact would be an increase of \$27. This assumes the maximum 75% ratio.

Since the actual tax rates are not set until later in the spring, Council can set the small business sub-class tax rate based on enrollment figures.

Administration is not supportive of adopting this bylaw. Although the actual financial impacts are not yet known, the introduction of a sub-class would create further inequity in the non-residential assessment class in addition to the many changes introduced provincially on oil and gas assessments. Unlike the oil and gas changes brought about by the Province, Council has control as to whether to introduce the small business sub-class.

LEGISLATIVE RESPONSIBILITIES

1. Section 297(2) of the Municipal Government Act, RSA 2000, c-M-26 (MGA) provides the authority to Council to divide non-residential properties into sub-classes by by-law.
2. Section 354 of the MGA 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 MGA.

PUBLIC PARTICIPATION

Lacombe County sees the value in engaging and informing the public/stakeholders through a variety of mediums as outlined in the *Policy AD(40): Public Participation Policy*. The appropriate level of engagement for each public participation opportunity is selected on a project-to-project basis. For this item, the following engagement will take place:

- *Inform:* To provide the public with balanced and objective information to assist them in understanding the problem, alternatives, opportunities and/or solutions.

Should Council adopt the bylaw, Administration would use all the County’s communication channels to encourage businesses to apply for the sub-class classification.

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 of our tax assessment base” and “Taxation and fee levels.”

Strategies: – Strategize how to deal with losses in revenue.

RECOMMENDATION

Administration recommends that Council receive this report as information.

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