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Office of the Minister

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Dan Cowin, Executive Director
Municipal Finance Officers Association
512 King St. E Suite 306
Toronto, Ontario
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Dear Mr. Cowin,

I want to thank you for taking the time to meet with us at the Ministry of Finance in February to discuss some of the challenges and issues surrounding municipal property tax.

After extensive consideration of the market value changes that have occurred with the 2004 reassessment, and after receiving input from business and municipal sector representatives, we have decided to proceed with two measures for the 2004 taxation year:

1. Municipalities will be authorized to increase the tax ratio of one or more business property classes to the extent necessary to prevent tax shifting onto the residential class as a result of reassessment. This authority will be provided through regulation of new tax ratios on a case-by-case basis, upon submission of a satisfactory proposal to the Minister of Finance, along with a copy of a council resolution supporting the new tax ratios.
2. Modification of the levy restriction to allow municipalities to apply a municipal tax rate increase on the business and multi-residential classes that is no more than half of any municipal tax rate increase on homeowners. In other words, a municipality seeking a 2 per cent increase in residential taxes could raise business taxes by 1 per cent.

This will give municipalities the ability to share the burden of any municipal tax increase while continuing to reduce the municipal taxation gap between business and residential property taxpayers.

Our government believes it is important to give municipalities the flexibility to make tax policy choices that are sensitive to their local circumstances. At the same time, we recognize the concerns of the business community about their property tax burden – that is why we are maintaining the restriction against full municipal levy increases on property classes with high tax rates relative to the residential class, and that is why we are only permitting tax ratio adjustments to the extent required to maintain revenue neutrality.

In addition to the issue of tax rate flexibility, our government has heard from taxpayers and municipalities about four other key areas of the property tax system that are causing concern, namely:

- the complexities of the capping and clawback mechanism;
- the future implementation of assessment averaging;
- the challenges of short timelines in the reassessment and municipal budget cycles; and
- the inability of municipalities to target tax relief to small business.

To address these issues, I have instructed Ministry of Finance staff to engage in discussions with stakeholder representatives for the purpose of receiving advice and considering options in advance of the 2004 provincial budget.

Our government looks forward to continuing to work with representatives of the business community to bring stability, equity and simplicity to Ontario's property tax system.

Yours sincerely,



Greg Sorbara
Minister