

For immediate release

Improve Toronto's economic development with business tax reductions: new report

Will property tax incentives help the city's commercial growth?

Toronto, ON, September 9, 2008 – Kick-starting Toronto's business will require more than just the property tax incentives the City has introduced, according to a new [report](#) released today by the Toronto Office Coalition. The report by Dr. Enid Slack of the Institute on Municipal Finance and Governance finds that there is no consensus that property tax incentives are an effective strategy to achieve economic growth.

To attract and retain businesses in Toronto, City Council recently approved a program that provides tax increment equivalent grants (TIEGs) for improvements to existing buildings or the construction of new buildings that will increase the value of the property. After the taxes have been paid each year, the City then gives back a percentage of the increment in the property tax for that year. Property owners would continue to pay the currently assessed taxes, but as the value of the property increases, a rebate of up to 60 per cent over 10 years would be provided.

Simply reducing business taxes would be more effective, Dr. Slack's report says.

"While the City of Toronto is attempting to attract new businesses with the recent introduction of property tax incentives, there are other options that may go farther to bolster Toronto's economic development," said Dr. Slack. "An overall reduction in business property taxes would increase business activity more consistently than selective use of incentives. Investing in infrastructure and providing services is another viable option to directly influence business location and also provide tangible resources to the general community."

Dr. Slack reviewed property tax incentives in a number of cities, looking at their relationship to economic development. She found that:

- Property tax differentials will have more influence over business location decisions *within* metropolitan areas than between metropolitan areas. For example, if a firm is choosing between Toronto and Atlanta, property taxes will not play a significant role. But if a firm chooses to locate in the Greater Toronto Area, the specific location within the GTA will likely be affected by property tax differentials.
- Size matters – the size of the property tax differential will have an impact on the location decision; the larger the differential, the more likely it will have an impact.
- Service levels in a municipality also affect a business location decision. Lower taxes combined with lower service levels are unlikely to attract new firms.
- Property tax incentives will be more successful at stimulating economic activity when only one jurisdiction in a region uses them. If municipalities in a region compete by using incentives, they become less effective.
- Property tax abatements are more effective for some businesses than others. Manufacturing firms will be more influenced by property tax differentials, for example, than other industries. Tax-sensitive firms such as manufacturers are more likely to locate in a low-tax jurisdiction.

Where there are significant advantages from being in a particular location, however, property taxes will have less of an impact.

- Property tax abatements are likely to result in higher tax rates for properties not receiving the abatement.

“City Council has taken steps to improve Toronto’s competitiveness with the surrounding 905 region, but it is our position that tax incentives will not do as much to attract new businesses as the universal reduction in non-residential property taxes would,” said Steven Sorensen, Chair, Toronto Office Coalition. “High business taxes are often cited as the reason why businesses have left Toronto and moved to the suburban municipalities of the GTA. Unlike tax reductions, the City’s tax incentives, though welcome, offer a temporary solution that expires after 10 years.”

According to a previous Canadian Urban Institute study, commercial property taxes are driving businesses out of Toronto, encouraging urban sprawl, inefficient infrastructure utilization and resulting in environmental degradation through increased traffic, air pollution and pressure on infrastructure. Non-residential tax rates are almost 40 per cent lower in 905.

The Toronto Office Coalition represents the interests of property owners and tenants of office buildings in the City of Toronto, who occupy approximately 55 million square feet of office space (35 per cent of the leaseable commercial space in the Greater Toronto Area) and employ some 250,000 people in the Greater Toronto Area, the majority in the downtown core.

For more information or to obtain a copy of the report, please contact:

Gillian McArdle / David Israelson
Media Profile
416-504-8464
gillian@mediaprofile.com / israelson@mediaprofile.com